2005 ANNUAL REPORT

CANADIAN SUPERIOR
ENERGY INC.

Forward-Looking Statements

This document contains forward-looking information on future production, project start-ups and future capital spending. Actual results or estimated results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors or revisions.

Statements contained in this document relating to future results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, those described in the Corporation's annual report on Form 40-F on file with the U.S. Securities and Exchange Commission.

Abbreviations

mbbls . . thousands of barrels
mmcf. . . million cubic feet
mmcf/d . million cubic feet per day
NGLs . . . natural gas liquids, consisting of any one or more propane, butane or condensate
LNG . . . . liquefied natural gas
bcf. . . . . billion cubic feet
boe . . . . barrels of oil equivalent
boe/d. . . barrels of oil equivalent per day
bbls . . . . barrels
bbls/d . . barrels per day

Conversion

All calculations converting natural gas to crude oil equivalent have been made using a ratio of six mcf of natural gas to one barrel of crude oil equivalent.

Contents

Corporate Profile

Canadian Superior Energy Inc. is a Calgary, Alberta based energy company engaged in the exploration and production of oil and natural gas with operations in Western Canada, offshore Trinidad and Tobago and offshore Nova Scotia. Please see Canadian Superior's website at www.cansup.com for further details. The Corporation plans to continue to increase its Western Canadian reserves, cash flow and production base by focusing its efforts on its core Drumheller area of central Alberta, Canada with conventional drilling and also where Drumheller is in the heart of Western Canada's evolving coal bed methane (CBM) play and by drilling and developing several other oil and gas plays in Western Canada. These activities complement the "High Impact" opportunities the Corporation is pursuing offshore Trinidad and Tobago, where it has a large strategic offshore acreage position in this "World Class" basin off the east coast of Trinidad and where the first of two back-to-back wells on the Corporation's "Intrepid" Block 5(c) offshore Trinidad will commence drilling on or before September/October 2006. Also in due course we plan further drilling offshore Nova Scotia, Canada, where we are the public company that holds the largest exploration acreage position. The Corporation's strategy is to increase shareholder value through strategic drilling and development and by prudently managing its balance sheet. We believe in creating "home run" opportunities for our shareholders through the "drill-bit".

The common shares of Canadian Superior trade on the Toronto Stock Exchange and the American Stock Exchange under the symbol "SNG".

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on May 12, 2006 at 11:00 am Calgary time, in the Wildrose Room, Sheraton Suites Calgary Eau Claire Hotel, 255 Barclay Parade SW, Calgary, Alberta T2P 5C2. All shareholders are encouraged to attend. Those unable to do so are requested to sign and return the proxy form which will be mailed to them.

December 31	2005	2004	% Change
Financial ($000's except per share amounts)			
Gross production revenue	**$ 54,545**	$ 38,684	41%
Cash flow from operations	**$ 30,333**	$ 20,242	50%
Per share	**$ 0.27**	$ 0.19	42%
Net earnings (loss)	**$ 3,056**	$ (3,024)	201%
Per share	**$ 0.03**	$ (0.03)	201%
Capital expenditures	**$ 44,083**	$ 42,221	4%
Nova Scotia offshore term deposits	**$ 14,421**	$ 14,169	2%
Net debt	**$ 7,064**	$ 13,380	-47%
Shares outstanding at year-end	**119,135**	109,806	8%
Operating			
Average production			
Natural gas (mcf/d)	**12,083**	11,533	5%
Oil and NGLs (bbls/d)	**618**	642	-4%
Barrels of oil equivalent per day	**2,632**	2,565	3%
Average selling price			
Oil and NGLs ($/bbl)	**$ 57.96**	$ 42.91	35%
Natural gas ($/mcf)	**$ 9.40**	$ 6.80	38%
Reserves (working interest)			
Total proved			
Natural gas (mmcf)	**22,666**	20,408	11%
Oil and NGLs (mbbl)	**930**	957	-3%
Barrels of oil equivalent (mboe)	**4,707**	4,358	8%
Total proved and probable			
Natural gas (mmcf)	**33,438**	29,575	13%
Oil and NGLs (mbbl)	**1,687**	1,808	-7%
Barrels of oil equivalent (mboe)	**7,260**	6,570	11%
Gross undeveloped land (acres)			
Offshore Trinidad & Tobago	**135,041**	55,000	146%
Offshore Nova Scotia	**1,293,946**	1,293,946	0%
Western Canada	**145,746**	170,978	-15%
Wells drilled			
Gross	**67.0**	38.0	76%
Net	**28.2**	24.8	14%

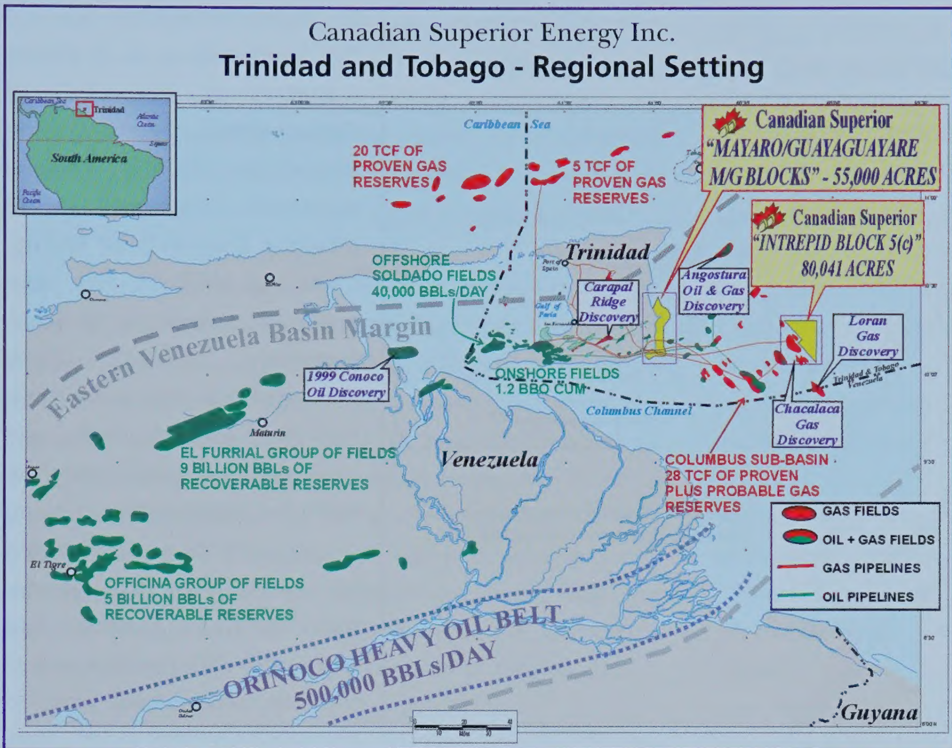
It is a pleasure to present to you the operating results of Canadian Superior Energy Inc. for the year ending December 31, 2005, an overview of our excellent results and a view into our future activities.

Highlights of 2005 include:

- Revenues of $54.5 million, up 41% compared to 2004.
- Cash flow from operations of $30.3 million, up 50% compared to 2004.
- Net income of $3.1 million, up 201% compared to 2004.
- Record year-end production rate of 3,470 boe/d, up 21% compared to year-end 2004.
- Proved reserves valuation up $38.3 million from 2004 (with a discounted cash flow of 10%).
- Proved reserves of 4,707 mboe, up 8% compared to 2004.
- Proved plus Probable reserves valuation up $48.5 million from 2004 to approximately $138 million (with a discounted cash flow of 10%).
- Signed Production Sharing Contract ("PSC") on July 20, 2005 with Government of Trinidad and Tobago for Block 5(c), with drilling back-to-back two (2) of the deepest wells to be drilled offshore Trinidad in the Columbus Basin, which is truly a "World Class" Basin, on our "Intrepid" Block 5(c) commencing on or before September/October 2006 as announced on March 20, 2006; with at least 5 wells planned for drilling offshore Trinidad and Tobago over the next 3 years. Canadian Superior will soon be bringing the Kan Tan IV Semi-Submersible Drilling Rig to Trinidad and Tobago, managed by A. P. Moller - Maersk A/S ("Maersk"), (OMX: MAERSK B), of Copenhagen, Denmark and owned by Beijing Zhiyuan Industries Company Limited ("Beijing Zhiyuan"), of Beijing, China. Canadian Superior is very pleased and honoured to be working with Maersk, and Beijing Zhiyuan, a member of the SINOPEC Group (NYSE: SNP), who are truly world class companies. Canadian Superior will be bringing this rig into Trinidad and Tobago with no other oil and gas companies involved in contracting of this offshore drilling rig at a very favorable day rate, honoured by Maersk and Beijing Zhiyuan, negotiated by Canadian Superior several months ago, as compared to current day rates which have gone up considerably. Also, Trinidad and Tobago is very economic and a very important source of North America's natural gas supply, supplying approximately 80% of North America's LNG, as well as being an important source of European and Asian natural gas supply.
- Also, we are also very pleased to have opened our regional office in Port of Spain to facilitate our drilling in Trinidad and Tobago with our new Country Manager, Roger De Freitas, a former Vice President of Santa Fe Drilling Co., with over 30 years of offshore drilling experience, which will be working with our experienced exploration and offshore drilling team located in Halifax, Nova Scotia and Calgary, Alberta, Canada who are all working hard on the logistics and supplies for our upcoming Trinidad and Tobago wells.
- Through our focused efforts Canadian Superior has become the largest public company oil and gas exploration acreage holder offshore Nova Scotia, Canada.
- Also during 2005, we have successfully drilled and placed on production several conventional oil and gas wells and we have also successfully completed our first Coal Bed Methane (CBM) drilling and production program centered on the Corporation's core Drumheller, Alberta, Canada area. Drumheller is one of Western Canada's best shallow conventional drilling and production areas and also one of Western Canada's best Coal Bed Methane (CBM) drilling and production areas where Canadian Superior has a large strategic land position and has one of the largest land positions in the area.
- The year was topped-off and further highlighted by Canadian Superior raising $28.7 million of committed equity financings and commitments, in addition to mid-year financings where we successfully completed equity financings of $11 million, for total 2005 committed financings of $39.7 million.

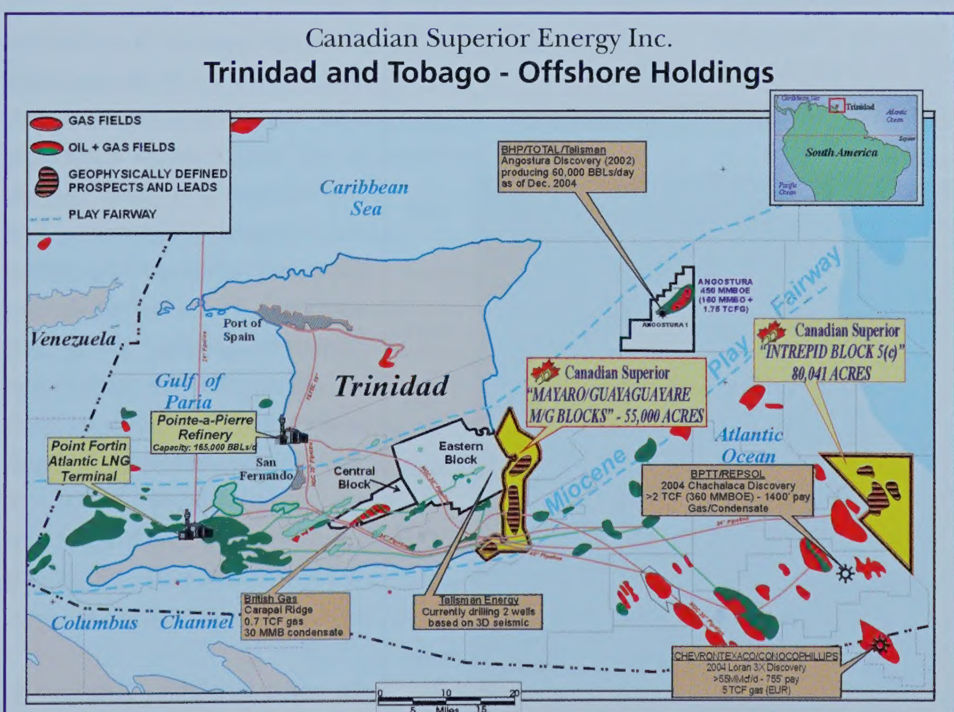
TRINIDAD AND TOBAGO

Canadian Superior would like to thank the Government of Trinidad and Tobago for the privilege of having the opportunity to obtain some of the best exploration acreage in the world. Canadian Superior would also like to thank, along side the Government of Trinidad and Tobago, the people of Trinidad and Tobago who are supportive of Canadian Superior's oil and gas strategy in Trinidad and Tobago. On July 20, 2005, we were very honoured and privileged to sign the Production Sharing Contract ("PSC") for our 100% working interest 80,041 acre "Intrepid" Block 5(c), offshore Trinidad and Tobago, with the Government of Trinidad and Tobago. This provides Canadian Superior the right to explore on Block 5(c) which covers 80,041 gross acres and



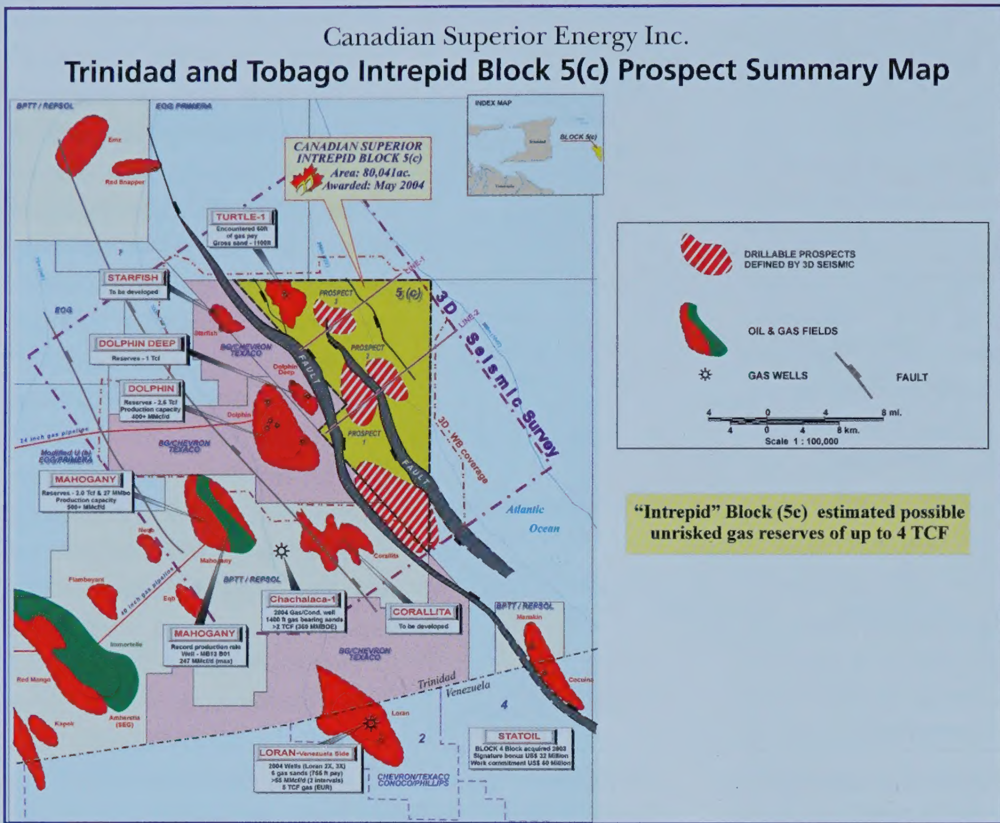
has significant natural gas exploration and development potential off the east coast of the island of Trinidad in this "World Class" basin (Please see Maps, page 3).

Offshore Trinidad is one of the most coveted oil and gas basins in the world today and we are very excited about commencing drilling on our "Intrepid" Block 5(c). "Intrepid" was the code name of a famous Canadian spy during World War II, and some historians have argued he was one of the most important factors in the Allies winning the war. The famous Canadian spy's name was Sir William Stephenson. The name "Intrepid" in Webster's Dictionary is defined as "outstandingly courageous" or "fearless"; this has been our strategy in acquiring and working towards early development of this Block against some of the largest oil and gas companies in the world. Offshore Trinidad is a "World Class" basin with multiple large exploration and development opportunities as evidenced by recent drilling successes in the Columbus Basin, as well as having well developed, and developing LNG facilities and capacity, and ready access to international markets. 80% of North America's LNG is supplied from Trinidad, and some of the largest producing wells in the world are located in Trinidad close to our acreage (Please see "Intrepid" Block Map, upper page 4). For example, 15 of the top 25 British Petroleum (BP) producing wells world-wide are located in Trinidad. Also, now in Trinidad and Tobago natural gas at the wellhead is currently selling near Henry Hub pricing.

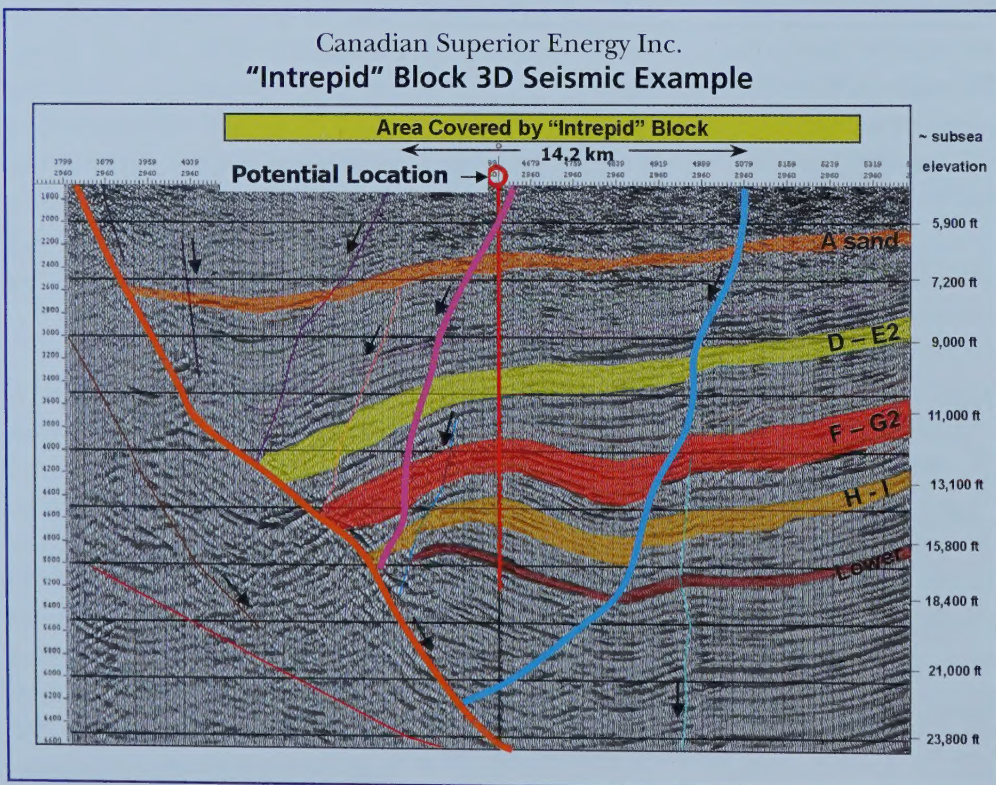


Note: Expanded versions of 2005 Annual Report maps may be viewed on www.cansup.com

The "Intrepid" Block 5(c) is comprised of 80,041 acres located about 96 kilometers (60 miles) off the east coast of the island of Trinidad with water depths in the range of 150m to 450m (500 to 1,500 feet) and all wells in Block 5(c) will be drilled from a semi-submersible drilling rig, with the first two wells in water depths of about 245m (800 feet). During 2005, the Corporation



actively pursued various rig options for the "Intrepid" drilling and was pleased to announce on March 20, 2006 that the Corporation has entered into firm multi-well drilling contract 100% on its own to contract the Kan Tan IV Semi-Submersible Drilling Rig, managed by A. P. Moller - Maersk A/S ("Maersk"), of Copenhagen, Denmark and owned by Beijing Zhiyuan Industries Company Limited ("Beijing Zhiyuan"), of Beijing, China to drill its first two exploration wells on Canadian Superior's "Intrepid" Block 5(c) offshore Trinidad. These two back-to-back wells will evaluate two large separate potential hydrocarbon bearing structures that are delineated by extensive 3D seismic that Canadian Superior has evaluated, with the first well of the two back-to-back wells to commence drilling shortly after the Kan Tan IV has completed a scheduled refurbishment currently underway in Brownsville, Texas. These prospects have been estimated to contain over 4 TCF of natural gas and condensate. Structures of similar size are located in the immediate vicinity of our "Intrepid" Block 5(c).



Once the retrofit is completed which is to be in August 2006 and the drilling rig is tested, it will be towed to a harbour in Trinidad and then directly to Canadian Superior's first Block 5(c) well site with spudding expected to be on or before September/October 2006. Each of these offshore exploration wells will be High Pressure ("HP") and will be drilled to a depth of approximately 5,000 m (16,400 feet) and each is expected to take between 80 – 100 days to drill and evaluate.

To assist Canadian Superior in going forward with its drilling in Trinidad, the Corporation

has entered into a participation agreement with a non-competitive industry financial partner, Challenger Energy Corp. ("Challenger"), (TSX.V: CHA). Challenger will participate on a promoted basis, paying 1/3 of Canadian Superior's Block 5(c) exploration program to obtain 25% of Canadian Superior's revenue share of these prospects.

Also, along side our experienced drilling team in Halifax, Nova Scotia, Canadian Superior has been fortunate enough to hire Mr. Roger De Freitas, a Trinidadian National as Country Manager in July, 2005. Roger is a former Vice President with Santa Fe Drilling Co., now Global Santa Fe, one of the major drilling contractors in the world. Roger has been involved in the oil and gas offshore drilling business for over 30 years and has held several senior management positions throughout the world, including work in Trinidad early in his oilfield career. We opened our country office in Port of Spain, Trinidad in August, 2005.

Throughout 2005, Canadian Superior's experienced Calgary, Alberta, Canada exploration team has been very active interpreting our extensive 3D coverage of Block 5(c) and has recently completed the detailed reprocessing of the 3D seismic data over Block 5(c) and several major offsetting natural gas fields (Please see Map, upper page 4).

We also have obtained from the Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI") extensive offsetting well technical data in the area and in combination with our detailed seismic interpretation we have been able to identify several excellent drilling locations, two of which will be drilled in due course as outlined (Please see Map, lower page 4) above. Canadian Superior has also finished the geohazard surveys for the two drilling sites on the two prospects we are about to drill, and we have hired local Trinidadians to work on our drilling projects to enable drilling on or before September/October 2006.

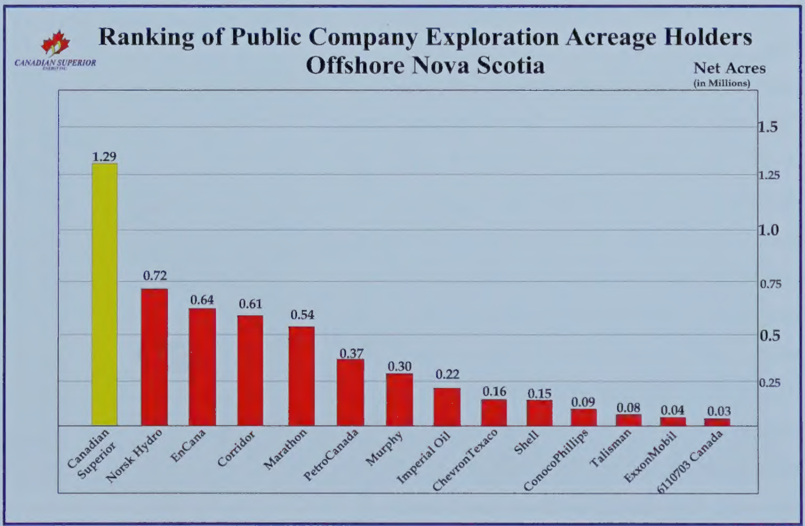
Also, we have been in the process of purchasing the necessary pipe, wellheads and long lead items to facilitate drilling on these exciting plays.

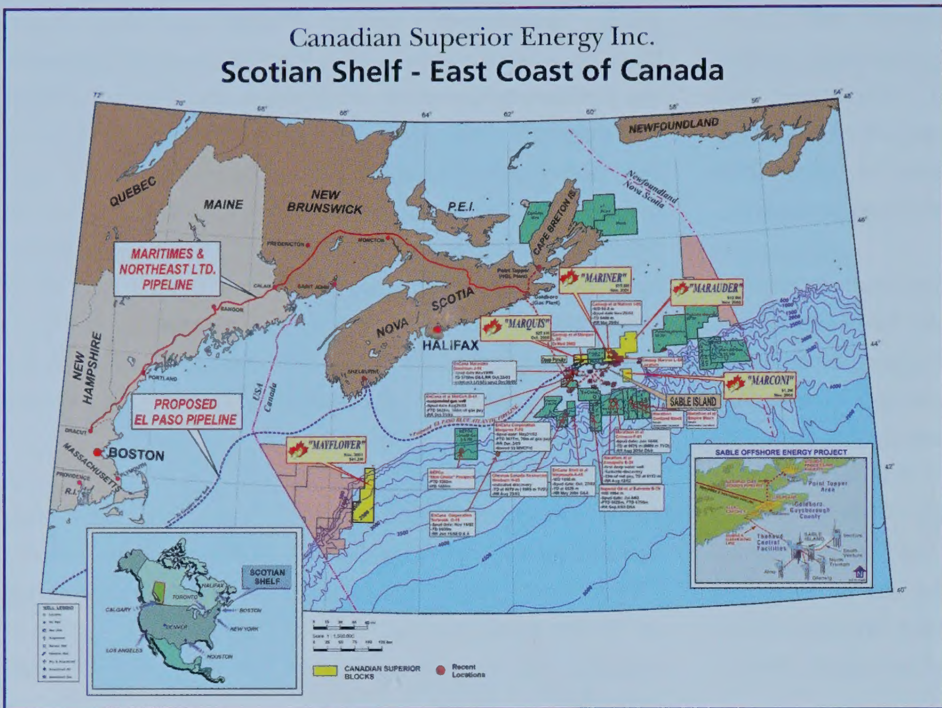
In addition, in Trinidad and Tobago, we continued to prepare for the first phase of operations on our Mayaro/Guayaguayare (M/G) "Tradewinds" project (Please see Map, lower page 3), a joint venture with the National Oil Company, the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"). This joint venture encompasses securing two near-shore Blocks (55,000 gross acres) off the east coast of Trinidad where we have the potential to establish significant oil reserves in the heart of a known producing hydrocarbons-bearing structural trend. On the M/G Block Land, the Corporation is working on the design of a seismic program to evaluate the near-shore block and is planning this program to be shot in the near future where we intend to drill 2 offshore wells.

As a result of finalizing the "Intrepid" Block 5(c) acquisition and our ongoing Mayaro/Guayaguayare (M/G) "Tradewinds" Joint Venture with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"), Canadian Superior will be drilling at least five new offshore wells over the next 36 months off the east coast of Trinidad on our extensive strategic lands.

OFFSHORE NOVA SCOTIA, CANADA

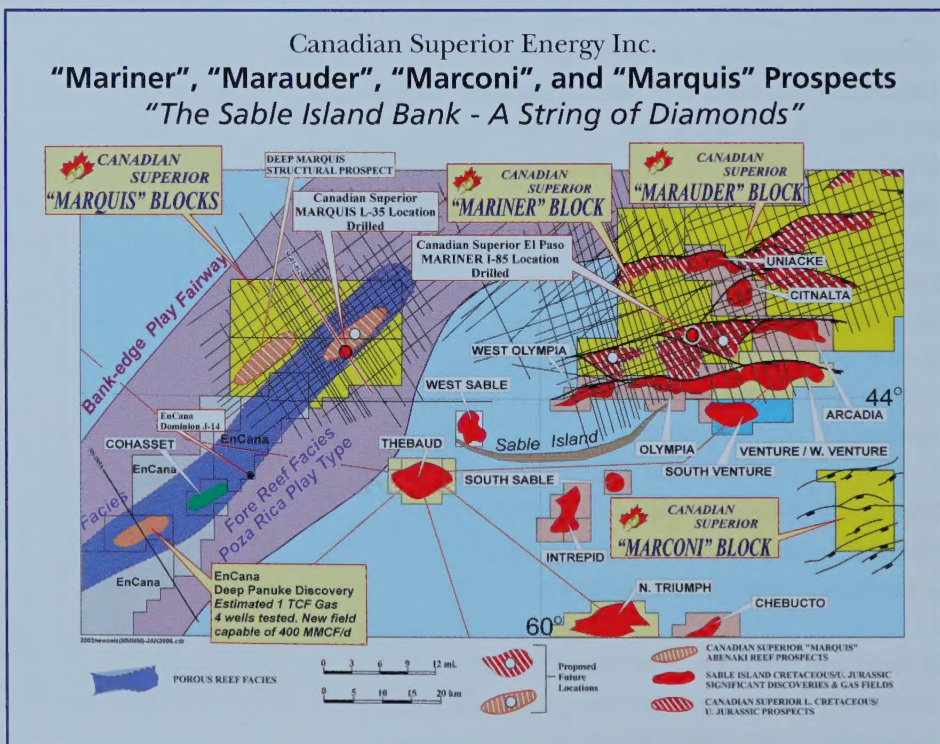
Canadian Superior has evolved as the largest public company holder of exploration acreage offshore Nova Scotia with 100% interests in six exploration licences totaling 1,293,946 acres (Please see the Chart & Map, page 5 and upper page 6) and is one of the few active operators involved in all three main play types in the basin. The Sable Island area gas supply is very important and strategic for the North Eastern United States gas supply, and we are confident that being the public company holding the largest exploration acreage position in this area will be very rewarding to Canadian Superior's shareholders.



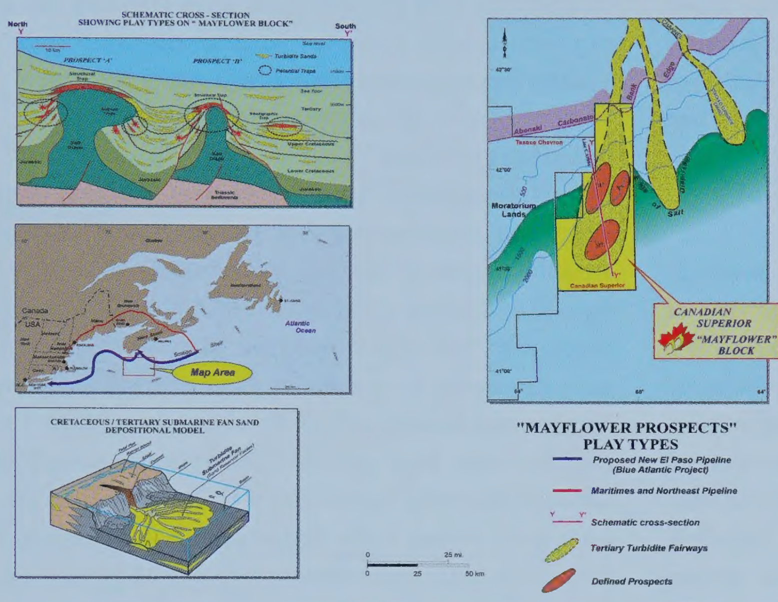


Canadian Superior has proven that it has the geological and technical experience and capabilities to evaluate, drill and operate some of the most complex and technically challenging wells in the world, whether offshore Nova Scotia or in Trinidad and Tobago. Further drilling is planned by Canadian Superior offshore Nova Scotia off the East Coast of Canada in due course, most likely first on our "Mariner" Block where front end geological and geophysical analysis is complete. Two new prospective locations have been identified (Please see Map, lower page 6), geohazard well site survey work has been completed and the necessary environmental approvals are in place. In 2004, the results of an independent petrophysical evaluation of the "Mariner" I-85 exploration well, the first exploration well drilled on the "Mariner" Block, was released. Amongst other considerations, Reserve Estimates were also addressed in the report, and although the "Mariner" I-85 well was not flow tested, the report states, "Potential reserve estimations can be generated based on well log data, and maps based on seismic interpretation" and has resulted in potential recoverable gas reserve estimates between 211 bcf and 632 bcf on this one "Mariner" structure on which the "Mariner" I-85 well was drilled and evaluated which are not included in our year-end 2005 reserve report.

Also, in regard to the "Mariner" Block, in 2005 we were advised by the Canada-Nova Scotia Offshore Petroleum Board ("CNSOPB") that the consolidation of our deepwater "Mayflower" exploration licence (EL 2406) and the shallower water "Mariner" exploration licence (EL 2409) had been approved by the Government of Canada and the Province of Nova Scotia. This consolidation will come into effect upon the drilling of the next "Mariner" exploration well and will allow the work commitments and related work commitment deposits for these two exploration licences (EL 2406 and EL 2409) to be combined, allowing the existing work deposit for our deepwater "Mayflower Project", approximately $10 million, to be applied directly against the costs of drilling



Canadian Superior Energy Inc.
"Mayflower" World-Class Turbidite Prospects

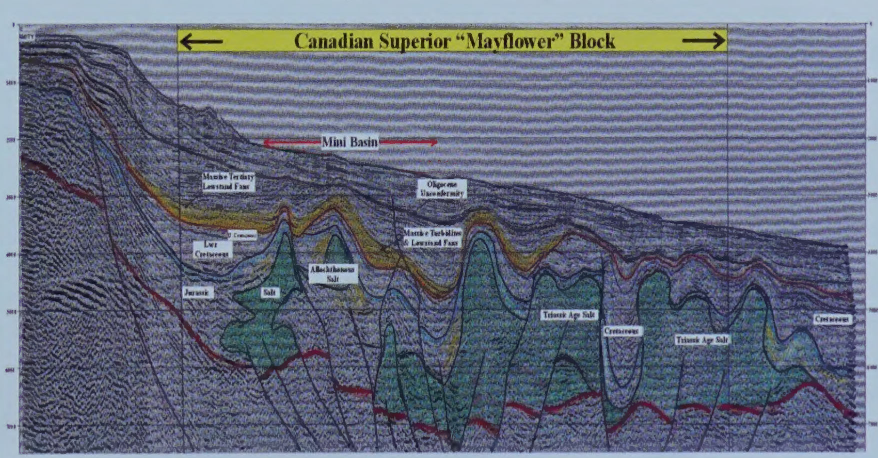


Canadian Superior's next "Mariner" well; in effect, this provides Canadian Superior with $10 million of additional capital to be applied to drilling the next "Mariner" well.

The "Mariner" Project lands are located approximately nine kilometres northeast of Sable Island, offshore Nova Scotia, encompassing an offshore area of 101,800 acres (100% Canadian Superior), and directly offsets five significant discoveries near Sable Island, including the ExxonMobil Venture natural gas field. The first exploration well, "Mariner" I-85, was drilled on this block in 2003/2004 (November 2003 to March 2004). Furthermore, upon consolidation, the exploration term for Canadian Superior's 100% deepwater "Mayflower" license (EL 2406) will be extended for 2 additional years, from the current expiry date of December 31, 2006 to December 31, 2008; and, thereafter, 50% of the licence area will be extended for an additional 2 years to December 31, 2010. Canadian Superior's "Mayflower" deepwater project exploration licence covers approximately 712,000 acres and mapping to date indicates the presence of five sizeable deepwater prospects. These large prospects are structural and are typically formed by mobile salt tectonics (Please see Map & Figure, upper page 7 and lower page 7). Canadian Superior plans to take full advantage of the extended exploration term on "Mayflower". We are planning to proceed in due course with a high resolution seismic program over the "Mayflower" block to further define targeted structures to enable future drilling and in 2005 updated our Environmental Impact Assessment in regard to this planned seismic activity, and we have had expressions of interest by major oil companies to partner with us on this exciting deepwater exploration Block.

In addition to Canadian Superior's "Mariner" exploration project targeting Cretaceous and Jurassic gas bearing sands, we continue to monitor drilling activities near our Abenaki Reef "Marquis" 100% prospects. Our "Marquis Project" lands encompass two exploration licences with approximately 111,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure and EnCana's Deep Panuke discoveries. We also have identified several other large Cretaceous and Jurassic prospects on our 100% "Marauder" and 100% "Marconi" exploration lands which cover an additional 371,000 acres offshore Nova Scotia, offsetting the Sable Island area, and in the fourth quarter 2005,

Canadian Superior Energy Inc.
"Mayflower Prospect" Seismic Data
Canadian Superior - Turbidite Prospect



the Corporation has initiated the environmental impact assessment work required prior to conducting seismic and drilling on these properties (Please see Map, lower page 6). As previously noted, with our focused strategy we have become the largest public company holder of exploration acreage offshore Nova Scotia (Please see Chart, lower page 5).

WESTERN CANADA

2005 was a very successful year for Canadian Superior. Increases in both production and cash flow, as well as operational efficiencies in the field, contributed to the Corporation achieving a record financial year, which has increased the overall Net Asset Value of the Corporation. All of Canadian Superior's current production in Western Canada is primarily located in the Drumheller, Alberta area, with other production and exploration in the Windfall, Boundary Lake, East Ladyfern, Giroux Lake and Teepee areas (Please see Map, lower page 8).

During 2005, the Corporation drilled or participated in 67 gross (28.2 net) wells which included 17 gross (14.4 net) operated wells and 50 gross (13.8 net) non-operated wells. The Corporation participated in the completion or tying in of 63 wells for an overall success rate of 94%.

Canadian Superior Energy Inc.
Western Canadian Exploration & Development Area

The Corporation maintained its extensive land holdings in Western Canada. At December 31, 2005, the Corporation held 275,710 gross acres (193,576 net acres) of predominately Canadian Superior operated lands with a high working interest of approximately 70%.

DRUMHELLER AREA

In our Drumheller area of Central Alberta, Canada, which has shallow, low cost prospects and year round accessibility and is located approximately 60 miles N.E. of the city of Calgary, our Corporation has major acreage and production holdings (Please see Map, upper page 9) in both conventional Cretaceous plays and in the Horseshoe Canyon and Mannville Coal Bed Methane ("CBM") plays, and this core area accounts for approximately 90% of Canadian Superior's production. In 2005, 64 gross (26 net) wells were drilled in the Drumheller area consisting of 18 gross (13.2 net) conventional wells and 46 gross (12.8 net) Horseshoe Canyon CBM wells. The Corporation acquired or purchased five extensive 3-D seismic programs, which are critical in continuing the success that Canadian Superior has achieved in 2005.

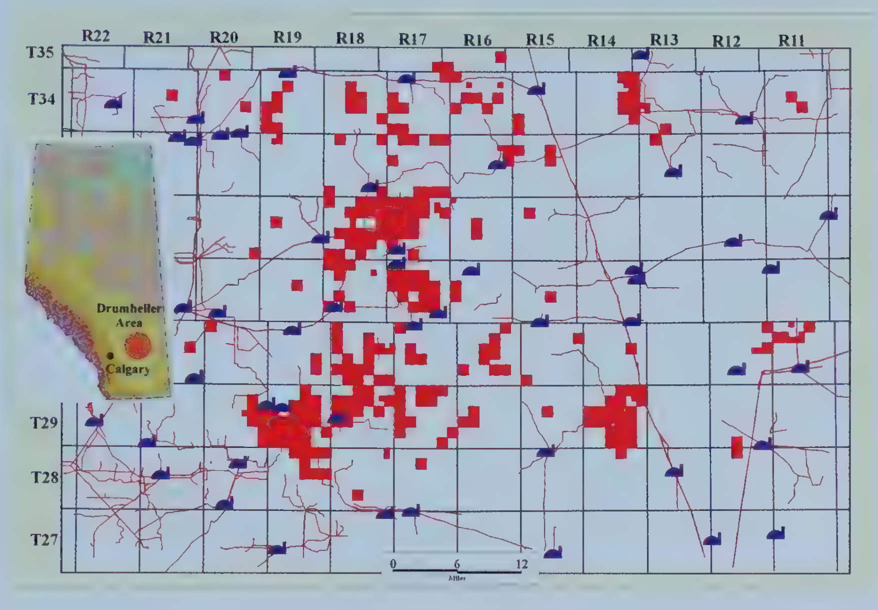
Conventional Plays

The Drumheller area offers a multitude of opportunities that include both oil and gas play types and are contained in five distinct stratigraphic zones.

The shallow targets include the Belly River and the Edmonton Groups and range in depth from 300-700 meters (980 – 2300 feet). Well production in these zones range from 50 – 750 mcf/d with associated reserve size of 1 - 2 bcf.

Intermediate targets in this area include the Medicine Hat and Second White Specks formation which produce between 10 and 100 mcf/d and the Viking Formation which can produce up to 1000 mcf/d. Canadian Superior continues to evaluate these formations through logging as it drills into deeper zones. The Corporation plans to drill two Viking tests in the first half of 2006.

Canadian Superior Energy Inc.
Strategic Core Production Area of the Drumheller Area, Alberta



Deeper targets in the Drumheller area include the Mannville group and the Banff formation, and the Nisku and Leduc formations are being evaluated. The Mannville group typically encounters several reservoirs with average production rates for these horizons ranging from 250 to over 1000 mcf/d. The Banff formation is a carbonate play which ranges in depth from 1100 – 1400 meters (3600 – 4600 feet) and tend to be oil prone. On average the Banff can produce oil rates of 20 – 200 bbl/d with reserves ranging from 20 – 200 mbbl. The Nisku and Leduc formations are typically high reserve prospects with high deliverability.

In 2006, the Corporation plans on drilling 25-30 conventional wells in Drumheller, a low cost area with year-round access and we have an extensive portfolio of multiple-zone locations identified for drilling on our existing acreage. Approximately 66% of these wells will target the Mannville group, 22% will target the Viking or the Belly River and Edmonton groups and the remaining 12% will target the Banff and/or Nisku or Leduc formations.

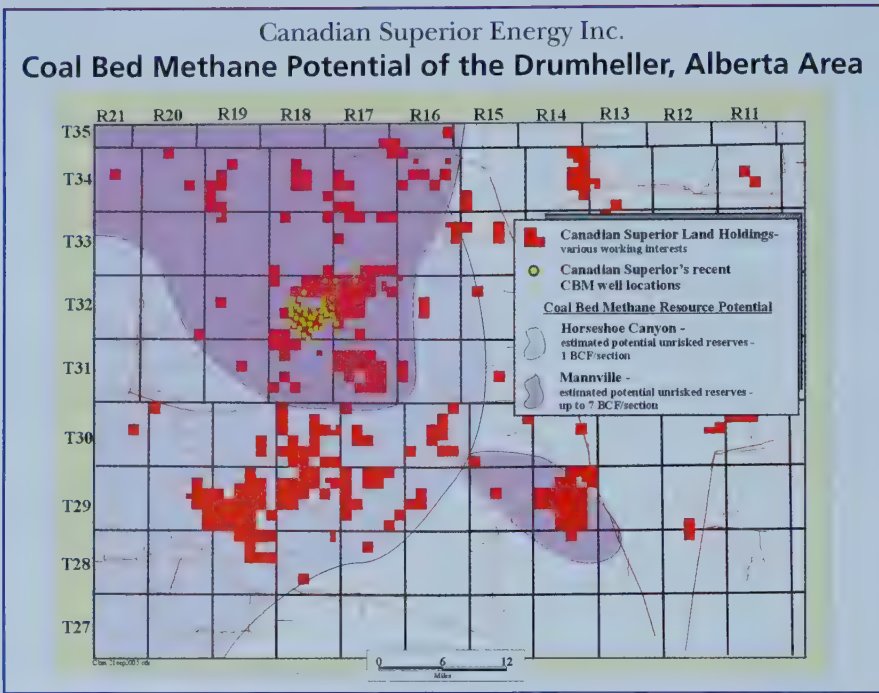
Coal Bed Methane

Coal bed methane has recently been recognized as one of the emerging plays available to the oil and gas industry, which has added significant Proven and Proven Plus Probable Reserves to the Corporation. The Drumheller area is in the heart of recent coal bed methane (CBM) development in Western Canada where Canadian Superior is fortunate to have one of the largest concentrated high working interest land positions with significant land holdings in both the Horseshoe Canyon and the Mannville stratigraphic zones (Please see Map, page 10).

Canadian Superior's current activities in CBM are centered on the Horseshoe Canyon in which the Corporation drilled or participated in 46 wells during 2005. All of these wells have been successful and the Corporation will continue to develop these assets in 2006. Canadian Superior holds 157 gross (81 net) sections of Horseshoe Canyon rights. The Horseshoe Canyon Coal depths range from 200 – 400 meters (650 – 1300 feet) and are typically found in 8 – 10 coal seams with thicknesses averaging from 0.75 – 1.5 meters (2.5 – 5 feet). These coals contain dry gas and produce little or no water. The Corporation will drill or participate in 20 – 40 Horseshoe Canyon wells in 2006.

An untapped resource that exists in the Drumheller area is the Mannville coals. These coals are between 1000 - 1300 meters (3300 – 4300 feet) in depth with each seam being thicker (up to 4 meters) but less frequent (1 – 5 seams) than the Horseshoe Canyon. Resource potential estimates are still in the early stages but Canadian Superior calculates it has over 100 BCF (P50) of net sales reserves in this area. Currently the Corporation has 42 gross (41 net) sections of land in the Mannville CBM fairway. Drilling for these coals would include horizontal drilling techniques. Plans for development of Mannville CBM by Canadian Superior will be cautious until the reserve and production parameters are better defined.

The Corporation's total acreage for CBM is 185 gross (108 net) sections of which 14 gross (13.4 net) sections have both Horseshoe Canyon and Mannville CBM potential. The results to date achieved by Canadian Superior and its partners on a small portion of Canadian Superior's non-operated land will be utilized by the Corporation to provide a solid foundation for development and operating drilling



on this large CBM potential that exists over our extensive operated high working interest acreage base within our Drumheller core producing area. The Corporation is working hard to develop its extensive concentrated land holdings adjacent to recent (January 11, 2006) record land sales with land prices as high as approximately $700,000 per section. Potential Reserves and Potential Value for the Corporation's CBM are highlighted in the following table:

Coal Bed Methane Potential Reserves and Potential Value

	P10	P50	P90
Horseshoe Canyon Coals			
Estimated Gross Resource (bcf)	125	95	70
Potential Net Reserves (bcf)	30	22	15
Potential Values* ($mm CDN)	53	38	26
Mannville Coals			
Estimated Gross Resource (bcf)	358	240	144
Potential Net Reserves (bcf)	161	104	62
Potential Values* ($mm CDN)	137	89	53

Note: P10, P50 & P90 represent geological probabilities.

**Coal Bed Methane is relatively new in Canada and actual values are based on conservative netbacks of $1.75/mcf for Horseshoe Canyon and $0.85 for Mannville. As production histories are established, these values are subject to change.*

WINDFALL/PINE CREEK/GIROUX LAKE

Canadian Superior drilled or participated in two wells in the Windfall area in 2005. Both these wells were successful and have been tied in. Both wells are producing between 500 – 750 mcf/d. The Corporation is planning a 2D seismic shoot in the Giroux area and has budgeted two locations in the Windfall/Pine Creek/Giroux area. The Corporation continues to look at this higher reward, medium risk area with a view towards further expansion, using its current land base as a nucleus.

BOUNDARY LAKE/TEEPEE

The Boundary Lake/Teepee area is a high reward medium risk area and was a major focus area for Canadian Superior in 2005 and into 2006. At the end of 2005, this property represented a minor portion of the Corporation's total production, but renewed emphasis has been placed on this year round access area. The Corporation purchased additional lands, 2D and 3D seismic data and plans on drilling two wells in 2006 and will participate in a third. The Corporation also has several follow-up locations based on the success of the initial drilling. The area has multi-zone potential with typical well reserves in the range of 2 – 5 bcf and associated production of 1 – 4 mmcf/d.

EAST LADYFERN

In 2005, the Corporation followed up its Slave Point play in the East Ladyfern area with the addition of 2D seismic and the drilling of the 1-26-91-11W6 well. This well was drilled in late January 2005 due to delayed freeze-up and rig availability. Because of early break-up, no testing could be done at the time. The logs over the Slave Point have been subsequently further evaluated and we have now determined that they show gas over water and at this time because of high costs associated with completing this type of sour natural gas further testing of this formation is not justified. However, the shallower Cretaceous zones in the 1-26 and other wells in the area show promise. The Corporation plans (with its partner) to complete the 12-27-91-11W6 and the 1-26-91-11W6 well bores and to drill a new shallow location in first half of 2006. With success in the shallower non-sour lower cost Cretaceous resource play, the needed infrastructure will be brought

The Corporation recorded a net income of $1.4 million ($0.01 per share) during the fourth quarter of 2005, up from a net income of $0.3 million ($0.00 per share) recorded in the fourth quarter of 2004. For the year, the Corporation posted a net income of $3.1 million ($0.03 per share) compared to a net loss of $3.0 million ($0.03 loss per share) over 2004, up 201%.

Cash flow from operations for the fourth quarter increased 73% to $10.3 million from $6.0 million recorded in 2004. For the year, cash flow of $30.3 million was up 50% from 2004 cash flow of $20.2 million. Higher product prices received in 2005, combined with increased product volumes, were the primary contributor to the cash flow increases.

Oil and gas revenue, net of transportation costs of $187,000, during the fourth quarter of 2005 increased 68% to $18.6 million as compared to $11.0 million in 2004. For the year, oil and gas revenues, net of transportation costs of $678,000, of $54.5 million were 41% higher than 2004 revenues of $38.7 million. The revenue increases are due to increased production volumes brought on in the third and fourth quarters of 2005 as well as higher average prices. The average sales price net of transportation costs for the fourth quarter of 2005 was $68.59/boe ($11.91/mcf for natural gas and $59.45/bbl for oil and NGLs) up 40% from $43.92/boe in 2004 ($7.04/mcf for natural gas and $48.82/bbl for oil and NGLs). Average sales prices net of transportation costs for the year averaged $56.79/boe ($9.40/mcf for natural gas and $57.96/bbl for oil and NGLs) up 37% from $41.33/boe recorded in 2004 ($6.80/mcf for natural gas and $42.91/bbl for oil and NGLs). Gas volumes of 13,489 mcf/d during the fourth quarter increased 10% compared to 12,209 mcf/d in the same period in 2004, while oil volumes were up slightly to 705 bbls/d from an average of 691 bbls/d produced in 2004. 2005 average gas volumes of 12,083 mcf/d were up 5% from 11,533 mcf/day recorded over the same period in 2004 while oil volumes of 618 bbls/d for the year were down 4% from 2004 sales of 642 bbls/d. Operating costs were approximately $7.54/boe compared to $7.64/boe in 2004 and operating netbacks were approximately $39.13/boe compared to $27.48/boe in 2004, with cash flow per boe of approximately $31.57 compared to $21.62/boe in 2004.

into the area and may allow economic tie-ins of the Slave Point gas in this area at a later date.

STRATEGY FOR DRILLING IN THE FOOTHILLS OF ALBERTA WEST OF THE 5TH MERIDIAN

Canadian Superior is now also focusing its exploration in Western Canada towards the foothills of Alberta, Canada. This area represents an area of high risk–high reward exploration and production with year round access. In this area well reserves can range to over 10 bcf/well with associated natural gas liquids and can produce at rates of over 5 – 10 mmcf/d.

FINANCIAL HIGHLIGHTS

Also, the Corporation's year-end 2005 exit production rate reached a new record high of approximately 3,470 boe/d, up 27% from the production rate at the beginning of 2005. Daily production for the fourth quarter of 2005 averaged 2,953 boe/d which was up 8% from 2004 production of 2,726 boe/d. The increased production is the result of increased well tie-ins and operational efficiencies in the last quarter as well as bringing the majority of our coal bed methane wells on-stream. This was achieved by Exploration and Development drilling with no production acquisitions. Average daily production for the year, increased to 2,632 boe/d, up from 2,565 boe/d recorded in 2004.

RESERVES SUMMARY

We are pleased to provide the Corporation's December 31, 2005 Reserves and Values from Gilbert Lausten Jung Associates Ltd. evaluation of the Corporation's Western Canadian properties, effective December 31, 2005. As noted earlier in the Corporation's 2005 Highlights, we are pleased to report Proved Reserves of 4,707 mboe, up 8% compared to 2004; Proved Reserves valuation up $38.2 million (Present Value at 10%); Proved Plus Probable Reserves of 7,260, up 11% compared to 2004; and, Proved Plus Probable Reserves valuation up $48.5 million (Present Value at 10%).

	Oil (MSTB)	Gas (MMCF)	NGL (MBBLS)	MBOE (6:1)
Proved producing	755	18,008	160	3,916
Proved developed non-producing	10	2,121	3	366
Proved undeveloped	0	2,537	2	425
Total proved	765	22,666	165	4,707
Total proved plus probable	1,439	33,438	248	7,260

Value of Reserves (10% discounted cash flow, $000's)	2006
Total proved and probable	137,751
Total proved	106,727

Reserves refers to the Corporation's Working Interest share before deduction of royalties and without any Corporation royalty interest.

Price Forecast, Gilbert Lausten Jung Associates Ltd., effective January 1, 2006.

	Oil WTI (1) ($US/bbl)	AECO-C Price (2) ($CDN/bbl)	NGL Spot Gas (3) ($CDN/mmbtu)	NGL Propane ($CDN/bbl)	NGL Butane ($CDN/bbl)	Pentanes ($CDN/bbl)
Current Year Forecast						
2006	57.00	66.25	10.60	42.50	49.00	67.00
Future Years Forecast						
2007	55.00	64.00	9.25	41.00	47.25	65.25
2008	51.00	59.25	8.00	38.00	43.75	60.50
2009	48.00	55.75	7.50	35.75	41.25	56.75
2010	46.50	54.00	7.20	34.50	40.00	55.00

(1) West Texas Intermediate Crude Oil price, then current $, at Cushing, Oklahoma.

(2) Equivalent price, then current $, for Light Sweet Crude (40 API/0.3% S) landed in Edmonton, Alberta.

(3) The one month priced, then current $, averaged for the year at AECO delivery point.

ENVIRONMENTAL RESPONSIBILITY

Canadian Superior conducts its operations in Western Canada, Offshore Nova Scotia and in Trinidad and Tobago in a manner consistent with environmental regulations as stipulated in government legislations. The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. The Corporation anticipates spending sufficient funds on environmental expenditures in 2006 in order to comply or exceed in all material respects with all environmental requirements related to its field operations. The Corporation does not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Corporation will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

CORPORATE RESPONSIBILITY AND COMMUNITY INVOLVEMENT

Canadian Superior is a strong advocate of direct corporate involvement in communities contributing to, or affected by, its activities. We believe that direct community involvement enhances our ability to properly achieve our corporate strategy and objectives. Significant efforts are exerted to ensure that we have a responsible and responsive corporate presence. We conduct regular discussions with community representatives and stakeholders and we take care to ensure that planned activities are fully explained. Our strategy also involves direct involvement with local communities in addition to community sponsorship and sponsorship of local charities in communities that support our endeavors.

In Western Canada, Canadian Superior has been a sponsor of a number of urban and rural communities, charitable organizations and sponsorships. This includes the Corporation's continuing support of a major cancer research project in Alberta. Also, the Corporation is a major sponsor of 4H on Parade, one of the largest rural youth agricultural shows in North America, and the Calgary Stampede, "The Largest Outdoor Show On Earth". We intend to actively continue with support for community and charitable programs and initiatives. In Nova Scotia, Canadian Superior's contributions have included supporting education and training, as well as oil and gas related research and development activities, for students enrolled in undergraduate education programs in Nova Scotia, as well as various charitable organizations.

Canadian Superior is committed to a high level of participation and employment of Trinidadians, and more generally, in resource activities in Trinidad and Tobago. Canadian Superior has established a program for the promotion of education and training in Trinidad and Tobago in relation to petroleum resource activities in the offshore area. Initially a $25,000 CDN scholarship fund has been established to assist students with post secondary education in study programs related to oil and gas exploration and development. This is in addition to the PSC related training contribution of US$150,000 made by the Corporation in 2005 to the University of Trinidad and Tobago for financing of training of nationals in appropriate fields of study associated with the energy sector. The Corporation has also committed $25,000 CDN towards a research fund to support priority research and development initiatives in Trinidad and Tobago. This is in addition to the PSC related research and development contribution of US$150,000 made by the Corporation in 2005 to the Government of Trinidad and Tobago for the financing of Petroleum related research and develop activities. Also, Canadian Superior is committed to supporting charitable organizations within Trinidad and Tobago, and donations totaling $25,000 CDN were made at Christmas during this past year to various charitable organizations in Trinidad and Tobago.

In summary, we look forward to continuing to actively support programs related to the communities and stakeholders that support our corporate objectives and growth strategies.

OUTLOOK – 2006 AND LONGER TERM

2005 has been a great year for Canadian Superior and we are very excited about the future. Our strategic corporate objective is to continue to focus on high impact offshore exploration combined with growing cash flow and Western Canadian production while adding shareholder value and continuing to grow with financial discipline by:

- Focusing on our Drumheller core production area in Western Canada.
- Taking full advantage of our evolving exciting Western Canadian Coal Bed Methane ("CBM") opportunities.
- Continuing forward expeditiously with (1) drilling Offshore Trinidad and Tobago, and (2), also going forward in due course with further drilling Offshore Nova Scotia.
- Maintaining high working interest operated positions on our high impact offshore plays, focusing on maintaining a strong balance sheet.
- Continuing to build on our tremendous strengths and opportunities with our strong team of experienced management and personnel.
- Continuing to focus on increasing value to our shareholders successfully through the "drill-bit" like during the past year.

The best oil and gas value for shareholders is the oil and gas that a Company finds, not buys. The next several years will be very exciting and rewarding for Canadian Superior and our shareholders, especially in light of our high impact exploration drilling program commencing offshore Trinidad, complemented by Offshore Nova Scotia and bread and butter prospects in Western Canada. We appreciate your support as shareholders during the past year and your continued support.

Respectfully submitted on behalf of the Management, Staff and Directors of Canadian Superior Energy Inc.

CANADIAN SUPERIOR ENERGY INC.
per

Greg S. Noval
Chairman of the Board,
Chief Executive Officer and President
March 31, 2006

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and Auditors' Report included in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. The following discussion and analysis refers primarily to 2005 compared with 2004 unless otherwise indicated. The calculation of barrels of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Management's Discussion and Analysis contains the term "cash flow from operations", which is determined before changes in non-cash working capital and should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with generally accepted accounting principles ("GAAP"). Canadian Superior's determination of cash flow from operations may not be comparable to that reported by other corporations. A reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the audited financial statements. The Corporation also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding in a manner consistent with the calculation of earnings per share.

The MD&A contains forward-looking or outlook information regarding the Corporation. Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking or outlook information. These risks and uncertainties include, but are not limited to: commodity price levels; production levels; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

This document contains forward-looking information on future production, project start-ups and future capital spending. Actual results or estimated results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors or revisions.

Statements contained in this document relating to future results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, those described in the Corporation's annual report on Form 40-F on file with the U.S. Securities and Exchange Commission.

Additional information relating to Canadian Superior Energy Inc. is available on SEDAR at www.sedar.com.

NET INCOME AND CASH FLOW FROM OPERATIONS

	($000's)			($ per boe)		
Three months ended December 31	**2005**	2004	% Change	**2005**	2004	% Change
Gross revenue	**$ 18,822**	$ 11,185	68	**$ 69.28**	$ 44.60	55
Transportation	**187**	171	9	**0.69**	0.68	1
Revenue	**18,635**	11,014	69	**68.59**	43.92	56
Royalties, net of ARTC	**3,588**	1,009	256	**13.21**	4.02	228
Production and operating expenses	**2,027**	1,985	2	**7.46**	7.91	(6)
Operating netback	**13,020**	8,020	62	**47.92**	31.98	50
General and administrative expenses	**1,394**	1,423	(2)	**5.13**	5.67	(10)
Interest and other expense (income)	**1,216**	573	112	**4.48**	2.28	96
Large Corporations Tax	**66**	56	18	**0.24**	0.22	9
Cash flow from operations	**10,344**	5,968	73	**38.07**	23.80	60
Depletion and amortization	**7,428**	5,761	29	**27.34**	22.97	19
Future income tax (recovery)	**(591)**	(953)	(38)	**(2.18)**	(3.80)	(43)
Stock compensation expense	**2,064**	880	135	**7.60**	3.51	117
Net income (loss)	**$ 1,443**	$ 280	415	**$ 5.31**	$ 1.12	376

	($000's)			($ per boe)		
Year ended December 31	**2005**	2004	% Change	**2005**	2004	% Change
Gross revenue	**$ 55,223**	$ 39,299	41	**$ 57.48**	$ 41.98	37
Transportation	**678**	615	10	**0.71**	0.66	7
Revenue	**54,545**	38,684	41	**56.79**	41.32	37
Royalties, net of ARTC	**9,716**	5,805	67	**10.11**	6.20	63
Production & operating expenses	**7,239**	7,151	1	**7.54**	7.64	(1)
Operating netback	**37,590**	25,728	46	**39.13**	27.48	42
General and administrative expenses	**5,398**	4,614	17	**5.62**	4.93	14
Interest and other expense (income)	**1,730**	611	183	**1.80**	0.65	176
Large Corporations Tax	**129**	261	(51)	**0.13**	0.28	(52)
Cash flow from operations	**30,333**	20,242	50	**31.57**	21.62	46
Depletion and amortization	**23,539**	22,177	6	**24.50**	23.69	3
Future income tax (recovery)	**81**	(1,523)	(105)	**0.08**	(1.63)	(105)
Stock compensation expense	**3,657**	2,612	40	**3.81**	2.79	36
Net income (loss)	**$ 3,056**	$ (3,024)	(201)	**$ 3.18**	$ (3.23)	(198)

The Corporation recorded a net income of $1.4 million ($0.01 per share) during the fourth quarter of 2005 up from a net income of $0.3 million ($0.00 per share) recorded in the fourth quarter of 2004. For the year, the Corporation posted a net income of $3.1 million ($0.03 per share) up 201% compared to a net loss of $3.0 million ($0.03 loss per share) over 2004.

Cash flow from operations for the fourth quarter increased 73% to $10.3 million from $6.0 million recorded in 2004. For the year, cash flow of $30.3 million was up 50% from 2004 cash flow of $20.2 million. Higher product prices received in 2005 combined with increased product volumes were the primary contributor to the cash flow increases. This was achieved by Exploration and Development drilling with no production acquisitions.

PRODUCTION, PRICING AND REVENUE

	Three Months Ended December 31		Year Ended December 31	
Natural gas	**2005**	2004	**2005**	2004
Average daily production (mcf/d)	**13,489**	12,209	**12,083**	11,533
Average sales price ($/mcf)	**$ 11.91**	$ 7.04	**$ 9.40**	$ 6.80
Natural gas revenue net of transportation ($000's)	**$ 14,780**	$ 7,908	**$ 41,476**	$ 28,623
Oil and NGLs				
Average daily production (bbl/d)	**705**	691	**618**	642
Average net sales price ($/bbl)	**$ 59.45**	$ 48.82	**$ 57.96**	$ 42.91
Oil and NGLs revenue net of transportation ($000's)	**$ 3,855**	$ 3,106	**$ 13,069**	$ 10,060
Barrels of oil equivalent (6:1)				
Average daily production (boe/d)	**2,953**	2,726	**2,632**	2,565
Average sales price ($/boe)	**$ 68.59**	$ 43.92	**$ 56.79**	$ 41.33
Total oil and gas revenue net of transportation ($000's)	**$ 18,635**	$ 11,014	**$ 54,545**	$ 38,684

Daily production for the fourth quarter of 2005 averaged 2,953 boe/d, which was up 8% from 2004 production of 2,726 boe/d. The increased production is the result of increased well tie-ins and operational efficiencies in the last quarter as well as bringing the majority of our coal bed methane wells on-stream. Average daily production for the year increased to 2,632 boe/d, up from 2,565 boe/d recorded in 2004.

Oil and gas revenue, net of transportation costs of $187,000, during the fourth quarter of 2005 increased 68% to $18.6 million as compared to $11.0 million in 2004. For the year, oil and gas revenues, net of transportation costs of $678,000, of $54.5 million were 41% higher than 2004 revenues of $38.7 million. The revenue increases are due to increased production volumes brought on in the third and fourth quarters of 2005 as well as higher average prices. The average sales price net of transportation costs for the fourth quarter of 2005 was $68.59/boe ($11.91/mcf for natural gas and $59.45/bbl for oil and NGLs) up 40% from $43.92/boe in 2004 ($7.04/mcf for natural gas and $48.82/bbl for oil and NGLs). Average sales prices net of transportation costs for the year averaged $56.79/boe ($9.40/mcf for natural gas and $57.96/bbl for oil and NGLs) up 37% from $41.33/boe recorded in 2004 ($6.80/mcf for natural gas and $42.91/bbl for oil and NGLs). Gas volumes of 13,489 mcf/d during the fourth quarter increased 10% compared to 12,209 mcf/d in the same period in 2004, while oil volumes were up slightly to 705 bbls per/d compared to an average of 691 bbls/d produced in 2004. 2005 average gas volumes of 12,083 mcf/d were up 5% from 11,533 mcf/d recorded over the same period in 2004, while oil volumes of 618 bbls/d for the year were down 4% from 2004 sales of 642 bbls/d.

HEDGING

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect the Corporation against negative commodity price movements and are not used for trading or other speculative purposes. These 2005 activities resulted in a loss of $22,696, which was recorded as a decrease in oil and gas revenues during the period.

At December 31, 2005 the Corporation had the following contracts in place:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	1000 gj/d	10.08/gj (Aeco)	January 1 – March 31, 2006

At December 31, 2005 the estimated fair value of the above financial instruments was a gain of $23,140.

ROYALTIES

Royalties, net of the Alberta Royalty Tax Credit of $125,000, for the fourth quarter of 2005 of $3.6 million, are up 256% from $1.0 million recorded in 2004. This increase results from higher revenues for the period combined with an $825,000 adjustment for a 2003 audit provision as well as booking the full 2004 ARTC provision in the fourth quarter of 2004. For the year, royalties, net of the Alberta Royalty Tax Credit of $500,000, were $9.7 million, up 67% from $5.8 million recorded in 2004. Increased product prices are the main contributor to higher royalties in 2005. Lower royalties were attributed to 2004 which resulted from a $0.8 million royalty rebate, booked in the second quarter of 2004, relating to capital expenditures incurred in 2002 and 2003. The average royalty rate for the fourth quarter of 2005 was 19.3% of total revenues compared to 2004 royalties of 9.2%. The average royalty rate for the year was 17.8% of total revenues, compared to the 2004 crown royalty rate of 15.0%.

Three months ended December 31 ($000's)	**2005**	2004	% Change
Crown	**$ 3,120**	$ 1,735	80
Adjustment for 2003 audit provision	**-**	(825)	-
Freehold and overriding	**593**	620	(4)
Total royalties	**$ 3,713**	$ 1,534	142
Alberta Royalty Tax Credit	**(125)**	(500)	(75)
Net royalties	**$ 3,588**	$ 1,009	256
Per boe	**$ 13.21**	$ 4.02	229
Percent of total revenue	**19.3%**	9.2%	n/a

Year ended December 31 ($000's)	**2005**	2004	% Change
Crown	**$ 8,119**	$ 5,871	38
2003 GCA adjustment made in 2004	**-**	(1,143)	-
Freehold and overriding	**2,097**	1,577	33
Total royalties	**$ 10,216**	$ 6,305	62
Alberta Royalty Tax Credit	**(500)**	(500)	-
Net royalties	**$ 9,716**	$ 5,805	67
Per boe	**$ 10.11**	$ 6.20	63
Percent of total revenue	**17.8%**	15.0%	n/a

PRODUCTION AND OPERATING EXPENSES

Fourth quarter production and operating expenses of $2.0 million were even with fourth quarter 2004 expenses. Production and operating expenses for the year of $7.2 million were also even with 2004 expenditures. On a boe basis, fourth quarter 2005 production and operating expenses of 7.46/boe, were down 6% from $7.91/boe recorded for the same period in 2004 while yearly production and operating expenses of $7.54/boe were down slightly from the 2004 rate of $7.64/boe.

GENERAL AND ADMINISTRATIVE EXPENSES

During the fourth quarter of 2005, G&A charges of $1.4 million were even with fourth quarter 2004 G&A charges. For the year, G&A charges of $5.4 million were up 17% from $4.6 million recorded in 2004. On a unit of production basis, G&A expenses for the quarter were reduced 10% to $5.13/boe for 2005 from $5.67/boe recorded in 2004, while yearly expenses increased to $5.62/boe up 14% from $4.93/boe recorded in 2004. The main reason for the raise in general and administrative costs is an increase in insurance costs, bank re-financing fees and an increase in staffing requirements, including staffing and opening our Trinidad office.

STOCK BASED COMPENSATION EXPENSE

In September 2003, the CICA issued an amendment to Section 3870 "Stock based compensation and other stock based payments". The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Corporation implemented this amended standard in 2004. The Corporation recorded $2.1 million in stock based compensation expense in the fourth quarter of 2005, up from $0.9 million in 2004. Stock based compensation for the year was $3.7 million, which was up from $2.6 million reported in 2004.

INTEREST AND OTHER EXPENSE (INCOME)

During the fourth quarter of 2005 the Corporation incurred $291,000 in interest charges compared to $657,000 in 2004. For the year, the Corporation paid $1,015,000 in interest, down from $1,104,000 incurred in 2004. At the end of the year the Corporation had a drawn balance of $12.9 million on a $25.0 million revolving loan production facility. A one-time charge of $1,012,000 (inclusive of legal costs) was accrued at year-end to recognize the settlement of a former employee alleged compensation claims payable by the Corporation.

Interest income of $87,000 was earned by the Corporation in 2005 on its Offshore Nova Scotia license term deposits compared to $84,000 earned in 2004. For the year, interest income was $297,000 compared to $493,000 earned in 2004.

A one-time charge of $1.0 million was accrued at year-end to recognize the pending settlement of litigation claims brought upon the Corporation in the normal course of business.

DEPLETION AND AMORTIZATION

Depletion and amortization expense for the fourth quarter of 2005 totaled $7.4 million, up 29% from $5.7 million recorded in 2004. For the year, depletion and amortization expense totaled $23.5 million, up 6% from $22.2 million recorded in 2004. Depletion expenses are high for a company our size because of the large expenditures required to evaluate and drill offshore wells on the East Coast of Canada. Certain East Coast exploration and drilling costs have been included in the depletable pool, with no corresponding increase in reserves.

TAXES

The Corporation recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on the Corporation's year-end book value, and was $210,000 in 2005 compared to $261,000 recorded in 2004. Lower tax rates and an increase in the allowed capital deduction claim resulted in the reduction of taxes payable. The 2005 amount was offset by an over accrual of Large Corporation Tax in 2004 of $81,000 resulting in a net $129,000 charge to corporate tax expense for the period. Future income taxes of $81,000 were recorded in 2005 compared to a future tax credit of $1.5 million in 2004. The Corporation does not expect to be cash taxable in 2006.

CAPITAL EXPENDITURES

($000's)	Three Months Ended December 31 2005	2004	% Change	Year Ended December 31 2005	2004	% Change
Acquisition (disposition)	**$ (67)**	$ (1,330)	(95)	**$ (525)**	$ 1,070	(149)
Exploration and development	**8,499**	6,772	26	**23,849**	27,894	(14)
Plants and facilities and pipelines	**2,976**	1,686	77	**5,749**	6,696	(14)
Land and lease	**667**	138	382	**9,073**	2,116	329
Capitalized expenses	**1,828**	1,462	25	**5,937**	4,445	34
	$ 13,903	$ 8,728	59	**$ 44,083**	$ 42,221	4

During the fourth quarter of 2005, the Corporation incurred $13.8 million of capital expenditures compared to $8.7 million spent in 2004. For the year, capital expenditures totaled $44.1 million compared to $42.2 million recorded during the same period in 2004.

SUMMARY OF QUARTERLY RESULTS

($000's except production amounts)

	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04
Production								
Oil bbls/d	**705**	647	555	562	691	653	603	614
Gas mcf/d	**13,489**	12,345	11,375	11,092	12,209	10,490	11,428	11,882
Boe bbls/d	**2,953**	2,705	2,451	2,411	2,726	2,401	2,508	2,594
Revenue	**18,635**	14,982	10,808	10,120	11,014	9,282	9,315	9,072
Net income (loss)	**1,443**	1,429	13	105	280	(2,267)	(271)	0
Income (loss) per share	**0.01**	0.01	0.00	0.00	(0.00)	(0.02)	(0.00)	0.01
Cash flow from operations	**10,344**	8,871	5,775	5,343	5,968	4,526	5,312	4,436
Cash flow per share	**0.09**	0.08	0.05	0.05	0.06	0.04	0.05	0.04

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, the Corporation has a $25.0 million revolving production loan facility of which $12.9 million was drawn. In addition, in August, the Corporation completed a private placement financing consisting of 5.5 million special warrants at a price of $2.00 per special warrant for total proceeds of $11.0 million before financing costs of $275,000. The special warrants allow purchasers to acquire one common share of Canadian Superior Energy Inc. and one half warrant. Each full warrant allows holders to acquire one share of Canadian Superior Energy Inc. at a price of $2.50 to the end of June 30, 2006. In December, the Corporation completed a private placement financing consisting of 2,976,400 flow through shares at a price of $3.00 per share for total proceeds of $8.9 million. The Corporation has approximately $11.8 million in cash deposits available for corporate purpose. In addition, prior to year end the Corporation had secured a financing of US $15 million that closed in January 2006 comprised of Units consisting of ten 5% US Cumulative Redeemable Convertible Preferred Shares (the "Preferred Shares") and 80 Common Share Purchase Warrants. Each Preferred Share will be convertible into forty Common Shares of Canadian Superior Energy Inc. (6,000,000 Common Shares in aggregate) at a price of US $2.50 per Common Share. Also, on February 9, 2006 the Corporation completed a private placement of 1,000,000 Units at a price of $2.40 per Unit for gross proceeds of $2,400,000. Each Unit consists of one Common Share and one-half of one Common Share Purchase Warrant. The Warrants comprising part of the Units are exercisable until December 31, 2006 at an exercise price of $2.80 per Common Share.

The Corporation's 2006 Western Canadian exploration and development expenditures are expected to be primarily funded from operating cash flow. Additional cash may be required to fund planned 2007 and 2008 capital programs, including programs in Offshore Nova Scotia and Offshore Trinidad. These expenditures may be sourced from cash flow, additional equity financings and/or potential farm outs or joint ventures or releases of secured offshore term deposits as additional work expenditures are incurred.

BUSINESS RISKS

Companies engaged in the oil and gas industry are exposed to a number of business risks, comprised of and including, but not restricted to timing, estimates and/or projections, which may or can be described as business, operational and/or financial risks, many of which are outside of Canadian Superior's control. More specifically, without restricting the generality thereof, these may be, can be and/or include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices and interest rate fluctuations and environmental and safety risks. In order to mitigate these risks, the Corporation endeavors to employ a base of experienced qualified personnel, including operational, technical and financial personnel, and maintains an insurance program that is consistent with industry standards.

At December 31, 2005, the Corporation had $14.4 million of term deposits posted as security against its remaining Offshore Nova Scotia work expenditure bids. To the extent that expenditures are not incurred within the periods allowed, the Corporation would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment.

INTERNAL DISCLOSURE CONTROLS

In accordance with Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, the Corporation's President and Chief Executive Officer and Chief Financial Officer have designed, or have caused to be designed under their supervision, disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at December 31, 2005, have concluded that the Corporation's disclosure controls and procedures provide reasonable assurance that (i) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed summarized and reported within the time periods specified in the provincial and territorial securities legislation; and (ii) material information relating to the Corporation is accumulated and communicated to the Corporation's management, including the President and Chief Executive Officer and the Chief Financial Officer, in a timely manner.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada with a reconciliation to generally accepted accounting principles in the United States is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors, which has approved the consolidated financial statements.

MEYERS NORRIS PENNY LLP are independent auditors appointed by Canadian Superior Energy Inc.'s shareholders. The auditors have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards established by the Public Company Accounting and Oversight Board (PCAOB) to enable them to express an opinion on the fairness of the presentation of the financial statements in accordance with Canadian generally accepted accounting principles.

Greg S. Noval
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Canadian Superior Energy Inc. as at December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2004 and 2003 were audited by other auditors, who expressed an opinion without reservation on these statements in their reports dated March 31, 2005 and May 10, 2004.

Meyers Norris Penny LLP

CALGARY, CANADA
March 10, 2006

MEYERS NORRIS PENNY LLP
INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

December 31 (Thousands of Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and short-term investments	**$ 11,798**	$ 1,725
Accounts receivable	**8,968**	5,808
Prepaid expenses	**774**	593
	$ 21,540	$ 8,126
Nova Scotia offshore term deposits [Note 4 and 12]	**14,421**	14,169
Petroleum and natural gas properties [Note 5]	**150,384**	128,716
	$ 186,345	$ 151,011
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 15,754**	$ 10,756
Revolving production loan [Note 6]	**12,851**	10,750
	28,605	21,506
Asset retirement obligation [Note 7]	**8,302**	7,177
Future income taxes [Note 8]	**8,638**	8,778
	45,545	37,461
Shareholders' equity		
Share capital [Note 9]	**135,815**	114,626
Contributed surplus [Note 9]	**6,391**	3,386
Deficit	**(1,406)**	(4,462)
	140,800	113,550
Contingencies and commitments [Note 12]		
Subsequent events [Note 13]		
	$ 186,345	$ 151,011

See accompanying notes to consolidated financial statements

Approved by the Board

Greg S. Noval
Director

Leigh Bilton
Director

Years ended December 31 (Thousands of Canadian dollars except per share amounts)

	2005	2004	2003
			Restated (Note 2)
Revenue			
Oil and gas	**$ 55,223**	$ 39,299	$ 32,313
Transportation	**(678)**	(615)	(695)
Royalties net of royalty tax credit	**(9,716)**	(5,805)	(6,050)
	44,829	32,879	25,568
Expenses			
Production and operating	**7,239**	7,151	5,992
General and administration [Note 5]	**5,398**	4,614	4,849
Interest	**1,015**	1,104	1,456
Depletion, amortization and accretion	**23,539**	22,177	14,291
Stock based compensation	**3,657**	2,612	771
	40,848	37,658	27,359
Income (loss) from operations	**3,981**	(4,779)	(1,791)
Other income (expense) [Note 12]	**(715)**	493	364
Income (loss) before income taxes	**3,266**	(4,286)	(1,427)
Income taxes (reduction)			
Capital	**129**	261	288
Future income tax (reduction) [Note 8]	**81**	(1,523)	(763)
	210	(1,262)	(475)
Net income (loss)	**3,056**	(3,024)	(952)
Deficit, beginning of year, as previously reported	**(4,462)**	(312)	(17,057)
Accounting changes [Note 2]	**-**	(1,126)	(486)
Deficit, beginning of year, as restated	**(4,462)**	(1,438)	(17,543)
Reduction in stated capital [Note 9(f)]	**-**	-	17,057
Deficit, end of year	**$ (1,406)**	$ (4,462)	$ (1,438)
Income (loss) per share [Note 9(i)]	**$ 0.03**	$ (0.03)	$ (0.01)
Diluted income (loss) per share [Note 9(i)]	**$ 0.03**	$ (0.03)	$ (0.01)

See accompanying notes to consolidated financial statements

Years ended December 31 (Thousands of Canadian dollars except per share amounts)

	2005	2004	2003
Cash provided by (used in):			
Operating activities			Restated (Note 2)
Net income (loss)	**$ 3,056**	$ (3,024)	$ (952)
Charges or credits to income not involving cash			
Depletion, depreciation and accretion	**23,539**	22,177	14,291
Stock based compensation	**3,657**	2,612	771
Future income tax (reduction)	**81**	(1,523)	(763)
Funds from operations	**30,333**	20,242	13,347
Change in non-cash working capital [Note 3]	**11**	(2,541)	5,108
	30,344	17,701	18,455
Financing activities			
Issue of shares	**20,316**	12,673	74,195
Redemption (issue) of Nova Scotia offshore term and security deposits, net [Note 3]	**(252)**	9,670	(11,807)
Increase (repayment) of revolving production loan	**2,101**	(1,800)	7,400
	22,165	20,543	69,788
Investing activities			
Acquisition of oil and gas assets	**-**	(1,070)	(54,160)
Exploration and development expenditures	**(44,083)**	(41,151)	(29,835)
Change in non-cash working capital [Note 3]	**1,647**	(3,626)	5,080
	(42,436)	(45,847)	(78,915)
Increase (decrease) in cash and short term investments	**10,073**	(7,603)	9,328
Cash and short term investments, beginning of year	**1,725**	9,328	-
Cash and short term investments, end of year	**$ 11,798**	$ 1,725	$ 9,328

See accompanying notes to consolidated financial statements

NOTE 1: ACCOUNTING POLICIES

a) Principles of consolidation: The consolidated financial statements include the accounts of the Corporation and the accounts of its wholly-owned subsidiaries.

b) Cash and short-term investments: Cash and short-term investments consist of balances with banks and investments in highly liquid short-term deposits with a maturity date of less than ninety days.

c) Depletion and amortization: Canadian Superior Energy Inc. is engaged in the acquisition, exploration, development and production of oil and gas principally in Canada. The Corporation follows the full-cost method of accounting for oil and gas operations whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and nonproductive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.

   The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves, before royalties, as determined by the Corporation's independent engineers. Oil and gas reserves and production are converted into equivalent units based upon relative energy content.

   Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

   The Corporation performs a ceiling test in a two-stage test performed at least annually:

   i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs.

   ii) If impairment is indicated by applying the calculations described in i) above, the Corporation will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at the Corporation's credit-adjusted risk-free rate of interest, using forecast prices and costs. Any impairment is included in earnings for the year.

   Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded. Amortization of other equipment is provided on a diminishing balance basis at rates ranging from 20% to 100% per annum. Gains and losses from disposals are included in income.

d) Joint ventures: The Corporation's exploration and development activities related to oil and gas are conducted jointly with others, which may include related parties (see Note 10 below). The accounts reflect only the Corporation's proportionate interest in such activities.

e) Income taxes: The Corporation follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

f) Revenue recognition: Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

g) Flow-through shares: The Corporation, from time to time, issues flow-through shares to finance a portion of its oil and gas exploration activities. The exploration and development expenditures funded by flow-through shares are renounced to subscribers in accordance with the Income Tax Act (Canada). The estimated value of the tax pools foregone is reflected as a reduction in share capital with a corresponding increase in the future income tax liability at the time the related expenditures are renounced.

h) Measurement uncertainty: The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates, in future periods, could be significant.

i) Per share amounts: The Corporation follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

j) Foreign currency translation: Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net income for the current period.

k) Recent accounting pronouncements: In January 2005, the Canadian Institute of Chartered Accountants issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006. Section 3855 Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 Financial Instruments – Presentation and Disclosure discusses the presentation and disclosure of these items. The application of hedge accounting is covered in Section 3865 Hedges. Section 1530 Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to hedges or other derivative instruments, outside of net income, in a statement of comprehensive income. Section 3251 Equity establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. There have also been numerous consequential amendments made to other Sections. Transitional provisions are complex and vary based on the type of financial instruments under consideration. Therefore, the Corporation has not yet determined the effect of these new standards on its consolidated financial statements.

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

NOTE 2: CHANGES IN ACCOUNTING POLICIES

a) Stock Based Compensation and Other Stock Based Payment

Effective January 1, 2004 the Corporation retroactively adopted the new Canadian standard for "Stock Based Compensation". This standard requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. Per the transitional provisions, adoption requires that compensation expense be calculated and recorded in the statement of operations for options and warrants issued on or after January 1, 2003.

b) Asset Retirement Obligations

Effective January 1, 2004 the Corporation retroactively adopted the new Canadian standard for "Asset Retirement Obligations". This standard requires the recognition of the fair value of obligations associated with the retirement of tangible long-lived assets to be recorded in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to asset retirement accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Prior to January 1, 2004 the Corporation provided for future site restoration and abandonment costs over the life of the proved reserves on a unit-of-production basis.

c) Hedging Relationships

The Corporation has implemented new Canadian accounting guidelines for hedging relationships, which addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also established conditions for applying or discontinuing hedge accounting. Under the new guideline, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective in order to continue accrual accounting for position hedges with derivatives.

d) Impact of Policy Changes on 2003 Financial Statements

The adoption of the new accounting policies for stock based compensation and asset retirement obligations has been applied retroactively with the following impact on the 2003 comparative figures:

Balance sheet - debit (credit)	
Petroleum and natural gas properties	$ 4,797
Asset retirement obligation	(5,979)
Provision for future site restoration	1,634
Future income taxes	(174)
Contributed surplus	(1,404)
Deficit, end of year	1,126
Deficit, beginning of year	486

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

Statement of operations - debit (credit)	
Depletion, amortization and accretion	$ 1,027
Future site restoration	(1,223)
Stock based compensation	771
Future income tax reduction	65
Decrease in net income	$ 640
Loss per share – basic and diluted	$ (0.01)

e) Adjust 2004 and 2003 Earnings to Reflect Transportation Charges

The Corporation has implemented new Canadian accounting standards relating to the presentation of transportation costs. In prior years it was Canadian industry practice to net these costs out of revenues. The Corporation has restated revenues for the current and prior years to reflect this change. Transportation costs were $0.6 million in 2004 ($0.7 million in 2003). This change has no impact on net income or cash flow.

NOTE 3: CHANGES IN NON-CASH WORKING CAPITAL AND OTHER CASH FLOW INFORMATION

	2005 Change	2004 Change	2003 Change
Accounts receivable	**$ (3,160)**	$ (2,268)	$ 714
Nova Scotia offshore drilling security deposit	**-**	10,000	(10,000)
Prepaid expenses	**(181)**	(25)	1,156
Accounts payable	**4,999**	(3,874)	8,318
Change in non-cash working capital	**$ 1,658**	$ 3,833	$ 188
Related to:			
Operating activity	**$ 11**	$ (2,541)	$ 5,108
Financing activity	**-**	10,000	(10,000)
Investing activity	**1,647**	(3,626)	5,080
Change in non-cash working capital	**$ 1,658**	$ 3,833	$ 188
Other cash flow information			
Interest paid	**$ 854**	$ 1,104	$ 1,456
Taxes paid	**$ 143**	$ 271	$ 76

NOTE 4: NOVA SCOTIA OFFSHORE TERM DEPOSITS

Under the terms of the licenses referred to in Note 12(a), the Corporation has assigned term deposits totaling $14,421,000 (2004 - $14,169,000). Accordingly, this amount has been classified as a noncurrent asset. To the extent that the expenditures are not incurred within the period allowed, the Corporation would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment.

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

NOTE 5: PETROLEUM AND NATURAL GAS PROPERTIES

2005	Cost	Accumulated Depletion and Amortization	Net
Petroleum and natural gas properties - Canada	$ 202,408	$ 67,418	$ 134,990
Petroleum and natural gas properties - Trinidad	15,394	-	15,394
Total	$ 217,802	$ 67,418	$ 150,384
2004			
Petroleum and natural gas properties - Canada	$ 170,466	$ 44,441	$ 126,025
Petroleum and natural gas properties - Trinidad	2,691	-	2,691
Total	$ 173,157	$ 44,441	$ 128,716

Future development costs related to proven reserves of $7,146,000 (2004 - $3,647,000) have been included in the depletion base calculation at December 31, 2005.

At December 31, 2005 the Corporation has excluded $42,777,000 (2004 - $28,746,000) of oil and gas properties relating to unproved properties from costs subject to depletion, including $15.4 million relating to its interests in Trinidad and Tobago. General and administrative expenses totaling $5,937,000 (2004 - $4,445,000, 2003 - $4,063,000), of which $965,000 (2004 - $767,000, 2003 - $390,000) pertained to the Nova Scotia project, that were directly related to exploration and development activities, have been capitalized for the year ended December 31, 2005.

The benchmark prices, on which the ceiling test is based, are as follows:

Year	WTI Crude Oil (US$/bbl)	Exchange Rate (US$/CDN$)	Edmonton Light Crude (CDN$/bbl)	AECO Natural Gas (CDN$/mmbtu)
2006	57.00	0.85	66.25	10.60
2007	55.00	0.85	64.00	9.25
2008	51.00	0.85	59.25	8.00
2009	48.00	0.85	55.75	7.50
2010	46.50	0.85	54.00	7.20
2011	45.00	0.85	52.25	6.90

Benchmark prices increase at a rate of 2.0% per year for both oil and natural gas after 2011. Adjustments were made to the benchmark prices above, for purposes of the ceiling test, to reflect forward contracts the Corporation has in place, varied delivery points and quality differentials in the products delivered. For the years ended December 31, 2005 and 2004, no ceiling test write-down was required.

NOTE 6: REVOLVING PRODUCTION LOAN

At December 31, 2005 the Corporation had a demand revolving production loan facility (the "facility") with a Canadian chartered bank of $25,000,000 of which it had drawn $12,851,000. The facility bears interest at prime plus 1.0%. The facility is secured by a $100 million first floating charge demand debenture on the assets of the Corporation and a general security agreement covering all of the assets of the Corporation. The facility expires April 30, 2006 unless extended.

NOTE 7: ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

As at December 31 ($000's)	**2005**	2004
Asset retirement obligation, beginning of year	**$ 7,177**	$ 5,979
Liabilities incurred	**563**	900
Accretion expense	**562**	456
Technical revision	**-**	(158)
Asset retirement obligation, end of year	**$ 8,302**	$ 7,177

The technical revision in 2004 was the result of adjusting the credit adjusted risk free rate to 8.5% for wells drilled in 2004 from 7.0% used in 2003 and prior. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $15,746,000 (2004 - $14,197,000) which will be incurred between 2016 and 2018.

NOTE 8: INCOME TAXES

The net future income tax liability is comprised of:

a) Summary of temporary differences giving rise to future income tax liability:

	2005	2004
Future tax liabilities		
Oil and gas assets in excess of tax balances	**$ 12,756**	$ 12,628
Future tax assets		
Share issue costs	**(1,327)**	(1,437)
Asset retirement obligation	**(2,791)**	(2,413)
	(4,118)	(3,850)
Net future income tax liability	**$ 8,638**	$ 8,778

b) Reconciliation of income taxes calculated at the Canadian statutory rate of 37.6% (2004 - 38.6%) with actual income taxes:

	2005	2004	2003 Restated (Note 2)
Income (loss) before income taxes	**$ 3,266**	$ (4,286)	$ (1,427)
Combined federal and provincial income tax rate	**37.6%**	38.6%	40.6%
Computed income tax expense (reduction)	**$ 1,228**	$ (1,654)	$ (579)
Increase (decrease) resulting from:			
Non deductible Crown Royalties, net	**1,863**	1,224	1,755
Resource allowance	**(2,168)**	(1,397)	(1,474)
Stock based compensation	**1,376**	1,008	313
Tax reassessments	**(2,313)**	-	-
Tax adjustment from rate change and other	**95**	(704)	(778)
	$ 81	$ (1,523)	$ (763)

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

During 2005, Canada Revenue Agency completed a review of certain of the Corporation's tax filings for the years 2000 to 2002. As a result of these reviews, the Corporation's tax pools increased resulting in a future income tax recovery of approximately $2.3 million.

NOTE 9: SHARE CAPITAL

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

b) Voting common shares issued:

	December 31, 2005		December 31, 2004	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**109,806**	**$ 114,626**	96,101	$ 80,095
Issued for cash on special warrants	**5,500**	**10,835**	7,543	22,834
Issued upon exercise of stock options	**852**	**1,044**	1,299	1,462
Issued for cash on flow-through shares	**2,977**	**8,929**	1,377	3,443
Issue costs, net of future tax reduction of $221	-	**(436)**	-	-
Issued upon exercise of $2.00 purchase warrants	-	-	3,002	6,004
Issued upon exercise of $3.20 purchase warrants	-	-	484	1,549
Tax benefits renounced on flow-through shares	-	-	-	(1,188)
Issue costs, net of future tax reduction of $106	-	-	-	(203)
Value of stock compensation for exercised options	-	**652**	-	630
Balance, end of year	**119,135**	**$ 135,650**	109,806	$ 114,626

c) Special warrants issued:

	Number	**Amount**	Number	Amount
Balance, beginning of year	-	**$ -**	7,368	$ 22,309
Special warrants issued for cash [Note 9(e)(i)]	**5,500**	**11,000**	-	-
Special warrants issued for cash [Note 9(e)(ii)]	-	-	175	525
Converted upon issuance of common shares	**(5,500)**	**(11,000)**	(7,543)	(22,834)
Balance, end of year	-	**$ -**	-	$ -

d) Purchase warrants issued:

	Number	**Amount**	Number	Amount
Balance, beginning of year	-	**$ -**	-	$ -
Issued August 30, 2005 [Note 9(f)(i)]	**2,750**	**165**	-	-
Issued February 6, 2004 [Note 9(f)(ii)]	-	-	2,467	-
Exercised	-	-	(484)	-
Expired	-	-	(1,983)	-
Balance, end of year	**2,750**	**$ 165**	-	$ -
Share capital, end of year	-	**$ 135,815**	-	$ 114,626

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

e) Special warrants:

i) On August 30, 2005 the Corporation filed a short form prospectus qualifying the distribution of 5,500,000 common shares and 2,750,000 common share purchase warrants upon the exercise of the 5,500,000 special warrants issued on July 5th, 6th and 12th, 2005.

ii) On February 6, 2004 the Corporation filed a short form prospectus qualifying the distribution of 7,400,180 common shares and 2,466,726 common share purchase warrants upon the exercise of the 7,225,180 special warrants issued on December 16th and 24th, 2003 (as above) and an additional 175,000 special warrants issued on January 12, 2004 and 142,857 flow-through common shares upon the exercise of 142,857 flow-through special warrants issued on December 31, 2003.

f) Purchase warrants:

i) As described in Note 9(e) in February 2004, the Corporation filed a short form prospectus qualifying the distribution of 2,466,726 common share purchase warrants.

ii) As described in Note 9(e) in August 2005, the Corporation filed a short form prospectus qualifying the distribution of 2,750,000 common share purchase warrants which will expire on June 30, 2006.

g) Stock options:

The Corporation has a stock option plan for its directors, officers, employees and key consultants. The exercise price for stock options granted is no less than the quoted market price on the grant date with options vesting either on the grant date or in equal increments over a three-year period. An option's maximum term is ten years.

	2005		2004	
	Number of Options	**Weighted Average Price**	Number of Options	Weighted Average Price
Balance, beginning of year	**7,371**	**$ 1.66**	5,133	$ 1.29
Forfeited	**(613)**	**1.82**	(2,170)	1.57
Exercised	**(852)**	**1.22**	(1,299)	1.13
Prior period option reinstatement	**200**	**0.80**	0	0.00
Granted	**3,382**	**2.11**	5,707	1.85
Balance, end of year	**9,488**	**$ 1.83**	7,371	$ 1.66

The following table summarizes information about the stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average of Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.80-1.00	655	4.28	$ 0.82	655	$ 0.82
1.01-1.50	1,145	6.89	1.30	985	1.29
1.51-2.00	4,811	8.63	1.79	2,209	1.75
2.00-3.00	2,877	9.00	2.35	1,984	2.40
$ 0.80-3.00	9,488	8.32	$ 1.83	5,833	$ 1.79

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

The following table summarizes information about the stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average of Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.80-1.00	762	4.32	$ 0.82	762	$ 0.82
1.01-1.50	1,533	7.73	1.29	1,041	1.27
1.51-2.00	3,854	9.17	1.73	1,048	1.79
2.00-3.00	1,222	8.82	2.45	446	2.69
$ 0.80-3.00	7,371	8.35	$ 1.66	3,297	$ 1.52

A modified Black-Scholes option pricing model, with the following weighted average assumptions, was used to estimate the fair value of options on the date of the grant, for the inclusion as stock based compensation expense:

	2005	2004
Risk free interest rate (%)	**4.0**	4.0
Expected lives (years)	**10.0**	10.0
Expected volatility (%)	**57.0**	93.9
Dividend per share	**0.00**	0.00

The grant date weighted average fair value of options issued during 2005 was $1.08 (2004 - $1.31) per option.

The impact of stock based compensation on contributed surplus is:

Contributed surplus	**2005**	2004
Opening balance	**$ 3,386**	$ 1,404
Additions from issuance of stock options	**3,657**	2,612
Reduction from exercise of stock options	**(652)**	(630)
Closing balance	**$ 6,391**	$ 3,386

h) On June 27, 2003 at the Corporation's Annual Meeting of Shareholders, a special resolution was approved authorizing a reduction in the stated capital account for the common shares of the Corporation of $17,057,000, being the Corporation's deficit as at December 31, 2002.

i) During the year ended December 31, 2005, the Corporation entered into flow-through share agreements to issue 2,976,400 common shares for cash consideration of $8,929,200 and to renounce $8,929,200 of qualified expenditures.

j) During the year ended December 31, 2004, the Corporation entered into flow-through share agreements to issue 1,377,000 common shares for cash consideration of $3,442,500 and to renounce $3,442,500 of qualified expenditures.

k) Per share amounts for loss per share were calculated using the weighted average number of common shares outstanding of 112,170,000 for 2005 and 106,465,000 for 2004 and 85,082,000 for 2003. In calculating the 2005 diluted earnings per share amounts, 2,109,252 shares were required to be added to the weighted average number of common shares outstanding.

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

NOTE 10: RELATED PARTY TRANSACTIONS

a) During the year ended December 31, 2005, the Corporation paid $691,000 (2004 - $628,000, 2003 - $912,000) for oilfield equipment rentals to a Company controlled by a director, for oilfield construction to a company controlled by a director and for aircraft rentals to a Company controlled by an officer and director of the Corporation. During the year, the Corporation paid nil (2004 - $107,000, 2003 - nil) to a Company controlled by an officer and director of the Corporation for consulting services.

b) In November 2004, the Corporation entered into participation agreements in the normal course of operations with a Company controlled by an officer and director of the Corporation in respect of the Corporation's offshore Nova Scotia and offshore Trinidad and Tobago prospects. Pursuant to the 2004 agreements, the Company had the right to participate on a promoted basis for 16⅔% of Canadian Superior's costs of the East Coast wells (this was subsequently increased to 33⅓%) and the related party Company has the right to participate on a promoted basis for 33⅓% of Canadian Superior's costs of certain earning wells in Trinidad.

The transactions were in the normal course of operations and agreed to by the related Company and the Corporation based on extensive negotiations and Board approval and approval by the Corporation with legal counsel involved and accordingly had been measured at the exchange amount.

NOTE 11: RISK MANAGEMENT

The carrying values of financial assets and liabilities approximate their fair value due to their short periods to maturity, or the market interest rate on the revolving production loan.

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of nonpayment.

The Corporation is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices. The Corporation is exposed to a floating interest rate on its revolving production loan.

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes and are not used for trading or other speculative purposes.

At December 31, 2005 the Corporation had the following contracts in place:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	1,000 gj/d	$10.08/gj (Aeco)	January 1 – March 31, 2006

At December 31, 2005 the estimated fair value of the above financial instruments indicates an unrealized gain of $23,140.

During 2005, the Corporation's hedging activities resulted in a loss of $22,696 (2004 - $496,000; and an income of $269,000 in 2003), which was recorded as a decrease (increase in 2003) in oil and gas revenues during the period.

NOTE 12: CONTINGENCIES AND COMMITMENTS

a) Nova Scotia: During 2000, 2001 and 2003, the Corporation acquired six exploration licenses from the Canada-Nova Scotia Offshore Petroleum Board. These licenses are for a period of nine years in total, subject to certain requirements being met during the first five years. As a condition of the licenses, the Corporation is required to post security in the amount of 25% of its work expenditure bids. The deposit is refundable only to the extent of approved allowable expenditures. The duration of the initial five-year term, for a given license, can be extended one additional year to six years by posting an additional security deposit in an amount of $250,000. At December 31, 2005, as a result of the Corporation having made certain expenditures, the Corporation had fulfilled its work expenditures on two of the six exploration licenses. The remaining four exploration licenses are currently owned 100% by the Corporation and have aggregate work expenditure outstanding of $57,684,000, and as such the Corporation has $14,421,000 in term deposits assigned to the Canada – Nova Scotia Offshore Petroleum Board.

b) Trinidad and Tobago: The Corporation is committed to drill three exploration wells on its "Intrepid" Block 5(c) under its Block 5(c) Production Sharing Contract ("PSC") with the Government of Trinidad and Tobago, funded in part by a related party (See Note 10 above) participating on a promoted basis, paying ⅓ of Canadian Superior's Block 5(c) exploration program to obtain 25% of Canadian Superior's net revenue share of these prospects. Also, once approved by the Government of Trinidad and Tobago, the Corporation has an exploration drilling commitment to drill two wells on the "Mayaro/Guayaguayare" blocks from a joint venture with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin").

c) Flow-through expenditures: At December 31, 2005 the Corporation had yet to incur approximately $8.9 million of Canadian exploration expenses in relation to flow through shares issued. These expenses must be incurred by December 31, 2006.

d) Litigation and claims: The Corporation is involved in various claims and litigation arising in the ordinary course of business. In the opinion of Canadian Superior the various claims and litigations arising there from are not expected to have a material adverse effect on the Corporation's financial position. The Corporation maintains insurance, which in the opinion of the Corporation, is in place to address unforeseen claims.

   During 2004, a number of class action proceedings were initiated against Canadian Superior and certain of its directors and officers in the United States District Court, Southern District of New York, in the Ontario Superior Court of Justice and the Quebec Superior Court by plaintiffs alleging to have purchased securities of the Corporation and they allege that they suffered extensive damages resulting from statements and actions taken by the Corporation and officers and directors of Canadian Superior regarding the Corporation's Mariner I-85 exploration well drilled offshore Nova Scotia. On June 8, 2005, Canadian Superior and its insurers reached an agreement with no admission of liability by all parties to settle all securities class action litigation pending in the United States against the Corporation, and on September 6, 2005, a similar settlement was reached in Canada. The settlement for the two actions totalled $3.2 million U.S. and $2.15 million Canadian respectively, and was covered by the Corporation's insurance.

   As at December 31, 2005, the Corporation accrued $1,012,000 (inclusive of legal costs) as a one-time charge to recognize the settlement of a former employee's alleged compensation claims, which was settled subsequent to year-end. This amount has been included as an expense in other income (expense) in the statement of operations.

e) Prospect commitment fee: During 2002, the Corporation received a $10 million prospect commitment fee related to its "Marquis" Prospect Offshore Nova Scotia. In the event that any natural gas or other hydrocarbons in commercial

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

quantities are produced from a well on the "Marquis" Prospect, the Corporation will be obligated to repay the amount in 12 quarterly installments following commencement of commercial production.

f) Lease obligations: The Corporation has entered into agreements to lease premises and equipment requiring future minimum payments totaling $3,370,000. Minimum annual payments during the next five fiscal years are as follows:

2006	$ 1,197,000
2007	$ 1,019,000
2008	$ 888,000
2009	$ 237,000
2010	$ 28,000

NOTE 13: SUBSEQUENT EVENTS

a) On December 6, 2005 the Corporation secured a US $15 million equity commitment. On February 1, 2006 the Corporation completed this financing in the form of a private placement in the amount of US $15,000,000 by way of the issuance of Units consisting of ten 5% US Cumulative Redeemable Convertible Preferred Shares (the "Preferred Shares") and 80 Common Share Purchase Warrants. Each Preferred Share will be convertible into 40 Common Shares of Canadian Superior (6,000,000 Common Shares in aggregate) at a price of US $2.50 per Common Share. If Canadian Superior elects, it also has the option to pay the quarterly dividend by way of issuance of Common Shares at market, based on a 5.75% annualized dividend rate in lieu of the 5% annualized cash dividend rate. In addition, the Preferred Shares are redeemable and retractable five years from the date of issue or earlier, subject to earlier redemption or retraction subject to certain events. 10,000 Units, each consisting of 10 US $100 Preferred Shares, along with 800,000 Common Share Purchase Warrants are being issued to West Coast Asset Management, Inc. The Warrants comprising part of the Units are exercisable for a period of thirty-six (36) months from the date of issue at an exercise price of US $3.00 per Common Share.

b) Also in December 2005, the Corporation secured an equity financing commitment of $2.4 million, and on February 9, 2006 the Corporation completed this financing in the form of a private placement of 1,000,000 Units at a price of $2.40 per Unit for gross proceeds of $2,400,000. Each Unit consists of one Common Share and one-half of one Common Share Purchase Warrant. The Warrants comprising part of the Units are exercisable until December 31, 2006 at an exercise price of $2.80 per Common Share.

c) Subsequent to year-end, the Corporation settled an outstanding lawsuit [see Note 12(c)].

NOTE 14: COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation.

NOTE 15: RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Corporation follows Canadian generally accepted accounting principles (Canadian GAAP), which differ in some respects from generally accepted accounting principles in the United States (U.S. GAAP). Significant differences in accounting principles that impact the Corporation's financial statements are described below:

(Tabular amounts in thousands of Canadian dollars except per share amounts)	**2005**	2004	2003
Net income (loss) in accordance with Canadian GAAP, as reported	**$ 3,056**	$ (3,024)	$ (952)
Flow-through shares [Note 15(a)]			
Income taxes	**(1,283)**	(417)	(3,757)
Property acquisitions [Note 15(b)]			
Depletion, amortization and accretion expense	**452**	599	525
Income taxes	**(152)**	(206)	(189)
Ceiling test [Note 15(c)]			
Write down of petroleum and natural gas properties	**-**	(10,000)	(34,100)
Income taxes	**-**	1,439	12,089
Depletion, amortization and accretion expense	**5,181**	4,853	(770)
Income taxes	**(1,742)**	(1,675)	277
Stock based compensation [Note 15(d)]	**3,657**	2,612	771
Change in valuation allowance	**1,754**	-	-
Net loss before cumulative effect of change in accounting policy	**10,923**	(5,819)	(26,106)
Cumulative effect of change in accounting policy, net of tax [Note 15(e)]	**0**	0	147
Net income (loss) in accordance with U.S. GAAP	**$ 10,923**	$ (5,819)	$ (25,959)
Net income (loss) per share in accordance with U.S. GAAP			
Basic	**$ 0.10**	$ (0.05)	$ (0.31)
Diluted	**$ 0.10**	$ (0.05)	$ (0.31)

The application of U.S. GAAP results in the following differences to the following balance sheet items:

Years ended December 31, 2005 and 2004	**2005**		2004	
	Canadian	**United States**	Canadian	United States
Petroleum and natural gas properties	**$ 150,384**	**$ 119,033**	$ 128,716	$ 91,732
Future income tax liability	**8,638**	**-**	8,778	-
Share capital [Note 15(e)]	**135,815**	**177,304**	114,626	155,485
Contributed surplus [Note 15(f)]	**6,391**	**-**	3,386	-
Retained earnings (deficit)	**(1,406)**	**(59,218)**	(4,462)	(70,141)

a) Flow through shares: The Corporation finances a portion of its activities with flow-through share issues whereby the tax deductions are renounced to the share subscribers. The tax cost of the deductions renounced to shareholders is reflected as an increase in the future income tax liability and a reduction in the stated value of the shares. Under U.S. GAAP, share capital for flow-through shares issued after 1998 is stated at the quoted value of the shares at the date of issuance; the tax cost resulting from deduction renouncements, less any proceeds received in excess of the quoted value of the shares, must be included in the determination of the tax expense.

Years ended December 31, 2005 and 2004 (Tabular amounts in thousands except per share amounts)

b) Property acquisitions: In prior years, the Corporation recorded property acquisitions from related parties in exchange for common shares at the exchange amount, pursuant to Canadian GAAP. Under U.S. GAAP, these related party acquisitions are recorded at the seller's carrying amount. The resulting differences in the recorded carrying amounts of the properties results in differences in depletion and amortization expense in subsequent years.

c) Ceiling test: At December 31, 2005 the Corporation applied a ceiling test to its petroleum and natural gas properties. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation's petroleum and natural gas properties.

For U.S. GAAP purposes, the ceiling test used December 31, 2005 prices of:

Gas (per thousand cubic feet)	$ 10.35 CDN
Oil and natural gas liquids (per barrel)	$ 66.25 CDN

The application of the test resulted in no reduction in the carrying value of the Corporation's petroleum and natural gas properties under either U.S. or Canadian GAAP for 2005.

At December 31, 2004 the Corporation applied a ceiling test to its petroleum and natural gas properties using December 31, 2004 prices of:

Gas (per thousand cubic feet)	$ 6.35 CDN
Oil and natural gas liquids (per barrel)	$ 50.25 CDN

The application of the test resulted in a $10.0 million pre-tax reduction ($8.6 million after tax) in the carrying value of the Corporation's petroleum and natural gas properties under U.S. GAAP. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation's petroleum and natural gas properties.

At December 31, 2003, the Corporation applied the ceiling test to its petroleum and natural gas properties using December 31, 2003 prices of:

Gas (per thousand cubic feet)	$ 6.10 CDN
Oil and natural gas liquids (per barrel)	$ 34.92 CDN

The application of the test resulted in a $34.1 million pre-tax reduction ($22.0 million after tax) in the carrying value of the Corporation's petroleum and natural gas properties under U.S. GAAP. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation's petroleum and natural gas properties.

The resulting differences in the recorded carrying amounts of the properties results in differences in depletion, amortization and accretion expenses in subsequent years.

d) Stock based compensation: Under U.S. GAAP, FAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by FAS 123, the Corporation elected to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board ("APB") Opinion 25. Since all options were granted with exercise prices equal to the market price when the options were granted, no compensation expense has been charged to income at the time of the option grants.

Effective January 1, 2004, the Corporation retroactively adopted the Canadian GAAP policy for "Stock Based Compensation". This standard requires the Corporation to measure all stock based payments using the fair value method of accounting, and recognize the compensation expense over the vesting period of the related options with a corresponding increase in contributed surplus. This change has resulted in a U.S. GAAP difference and has reduced both the reported net loss and contributed surplus by $3,657,000 (2004 - $2,612,000, 2003 - $771,000) for the year ended December 31, 2005.

e) Asset retirement obligation: The Corporation adopted with retroactive application the U.S. GAAP policy for asset retirement obligations as of January 1, 2003. The change to the January 1, 2003 reported values were to increase: petroleum and natural gas properties by $888,000, asset retirement obligation by $632,000, future income tax liability by $109,000 and net loss by $147,000. This application did not have a significant impact on the Corporation's earnings and did not impact the Corporation's net loss per share. This policy was adopted under Canadian GAAP effective January 1, 2004 and as such, is no longer a reconciling item between Canadian GAAP and U.S. GAAP.

f) Additional U.S. GAAP disclosures:

i) FAS 133: At times the Corporation will use derivative financial instruments to manage commodity price exposure. Effective January 1, 2001 the Corporation adopted the provisions of FAS 133, which requires that all derivatives be recognized as assets and liabilities on the balance sheet and measured at fair value. Gains or losses, including unrealized amounts, on derivatives that have not been designated as hedges, or were not effective as hedges, are included in income as they arise.

For derivatives designated as fair value hedges, changes in the fair value are recognized in income together with changes in the fair value of the hedged item. For derivatives designated as cash flow hedges, changes in the fair value of the derivatives are recognized in other comprehensive income until the hedged items are recognized in income. Any change in the fair value of the derivatives that is not effective in hedging the changes in future cash flows is included in income as they arise.

At December 31, 2005 and 2004 the Corporation did not have any derivative financial instruments that were not designated as fair value hedges.

ii) FAS 123(R): In December 2004, the Financial Accounting Standards Board ("FASB") issued FAS 123(R), "Share-based Payment", which replaces FAS 123 and supersedes APB Opinion 25. FAS 123(R) requires compensation cost related to share-based payments be recognized in the financial statements and that the cost must be measured based on the fair value of the equity or liability instruments issued. Under FAS 123(R) all share-based payment plans must be valued using option-pricing models. FAS 123(R) is effective for the financial year beginning January 1, 2006. The Corporation has not yet determined what, if any impact this change will have on the reconciliation with U.S. GAAP.

iii) FIN 46 - Accounting for variable interest entities: In January 2003, the FASB issued Financial Interpretation 46 "Accounting for Variable Interest Entities" ("FIN 46") that requires the consolidation of Variable Interest Equities ("VIEs"). VIEs are entities that have insufficient equity or their equity investors lack one or more of the specified elements that a controlling entity would have. The VIEs are controlled through financial interests that indicate control (referred to as "variable interests"). Variable interests are the rights or obligations that expose the holder of the variable interest to expected losses or expected residual gains of the entity. The holder of the majority of an entity's variable interests is considered the primary beneficiary of the VIE and is required to consolidate the VIE. In December 2003 the FASB issued FIN 46R, which superseded FIN 46 and restricts the scope of the definition of entities that would be considered VIEs that require consolidation. The Corporation does not believe FIN 46R results in the consolidation of any additional entities.

iv) SAB 106: In September 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin 106 ("SAB 106") regarding the application of FAS 143 by oil and gas producing entities that follow the full cost accounting method. SAB 106 states that after the adoption of FAS 143 the future cash flows associated with the settlement of asset retirement obligations that have been accrued on the balance sheet should be excluded from the computation of the present value of estimated future net revenues for purposes of the full cost ceiling test calculation. The Corporation excludes the future cash outflows associated with settling asset retirement obligations from the present value of estimated future net cash flows and does not reduce the capitalized oil and gas costs by the asset retirement obligation accrued on the balance sheet. Costs subject to depletion and depreciation include estimated costs required to develop proved undeveloped reserves and the associated addition to the asset retirement obligations. The adoption of SAB 106 in the fourth quarter of 2004 did not have a material effect on the results of the ceiling test or depletion, depreciation and amortization calculations.

v) FAS 153: In December 2004, the FASB issued FAS 153, which deals with the accounting for the exchanges of nonmonetary assets. FAS 153 is an amendment of APB Opinion 29. APB Opinion 29 requires that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. FAS 153 amends APB Opinion 29 to eliminate the exception from using fair market value for nonmonetary exchanges of similar productive assets and introduces a broader exception for exchanges of nonmonetary assets that do not have commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Corporation does not believe that the application of FAS 153 will have an impact on the financial statements.

vi) Presentation: There are different presentations between Canadian and U.S. GAAP which are as follows:

1. No subtotal is permitted under U.S. GAAP within cash flow from operations on the statement of cash flows.
2. Under U.S. GAAP, there is no difference between net income and other comprehensive income.

Cover: Bottom photo: The Kan Tan IV Semi-Submersible Drilling Rig, managed by A. P. Moller - Maersk A/S, of Copenhagen, Denmark, and owned by Beijing Zhiyuan Industries Company Limited, of Beijing, China, which is under contract to Canadian Superior Energy Inc. to drill two back-to-back exploration wells on Canadian Superior's "Intrepid" Block 5(c) offshore Trinidad, with drilling scheduled to commence on the first well on or before September/October 2006; Centre photo: Drilling Rig Floor Area; Top photo: A typical Semi-Submersible flaring natural gas.

DIRECTORS

Greg Noval, B.Comm., B.A. (Econ.), LLB
Chairman, CEO & President

Leigh Bilton
Executive Vice President & Vice President, Western Canada Operations

Alex Squires, B.Sc. (Ind. Eng.), MBA, C.F.A.

Gerald J. Maier, B.Sc. (Pet. Eng.), O.C., C.D., LL.D., FCAE

Charles Dallas

T.J. (Jake) Harp, B.Sc. (Pet. Eng.), P.Geoph.

Kaare (Kory) Idland

Michael E. Coolen, B.Sc., B.Eng. (Mech.), P.Eng.
Vice President, East Coast Operations

OFFICERS AND SENIOR MANAGEMENT

Greg Noval, B.Comm., B.A. (Econ.), LLB
Chairman, CEO & President

Leigh Bilton
Executive Vice President & Vice President, Western Canada Operations

Michael E. Coolen, B.Sc., B.Eng. (Mech.), P.Eng.
Vice President, East Coast Operations

Mel Marshall, B.Sc. (Geophysics), P.Geoph.
Vice President, Exploration

Ross A. Jones, C.M.A.
Chief Financial Officer

Roger De Freitas
Country Manager, Trinidad & Tobago

Mark Gillis, B.Eng. (Mech.), P.Eng.
Manager, East Coast Operations

Neil Dore, B.Sc. (Pet. Eng.), P.Eng.
GM - Western Canada, Operations

Dave Cassidy, BBA (PLM)
Land Manager

Kelvin Nachtigall, B.Sc. (Geology)
Exploration Manager

Tony Sartorelli, B.Sc. (Civ. Eng.)
Manager Geophysics

INDEPENDENT ENGINEERS

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta & Toronto, Ontario

Computershare Trust Company, Inc.
Denver, Colorado & New York, New York

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
American Stock Exchange
Trading Symbol: SNG

SOLICITORS

Canadian Counsel
Bordon Ladner Gervais *LLP*
Calgary, Alberta

Burchell Green Hayman Parish
Halifax, Nova Scotia

McCarthy Tetrault *LLP*
Calgary, Alberta

U.S. Counsel
Morrison & Foerster *LLP*
New York, New York

Preston Gates Ellis *LLP*
Seattle, Washington

Trinidad and Tobago Counsel
Ignatius Chambers
Port of Spain, Trinidad and Tobago

AUDITORS

Myers Norris Penny *LLP*
Calgary, Alberta

BANKS

Canadian Western Bank
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

2005 Annual Report

CANADIAN SUPERIOR
ENERGY INC.

HEAD OFFICE
Suite 3300, 400 - 3rd Avenue S.W., Calgary, Alberta
Canada T2P 4H2
Tel: (403) 294-1411 Fax: (403) 216-2374

EAST COAST OFFICE
Purdy's Wharf Tower 1
Suite 1409, 1959 Upper Water Street, Halifax, Nova Scotia
Canada B3J 3N2
Tel: (902) 474-3969 Fax: (902) 474-3958

TRINIDAD AND TOBAGO OFFICE
5 Herbert Street
St. Clair, Port of Spain
Trinidad and Tobago
W. I.
Tel: (868) 628-5488 Fax: (868) 628-3072

www.cansup.com